

CITY OF PELLA, IOWA

**INDEPENDENT AUDITOR'S REPORT
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

June 30, 2014

City of Pella, Iowa
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City of Pella, Iowa
City Officials
Year Ending June 30, 2014

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January, 2014)		
James Mueller	Mayor	January, 2016
Mark De Jong	Council Member/ Mayor Pro Tem	January, 2014
Dave Vander Horst	Council Member	January, 2016
Harold Van Stryland	Council Member	January, 2016
Larry J. Peterson	Council Member	January, 2016
Bruce Schiebout	Council Member	January, 2014
Dan Vander Beek	Council Member	January, 2014
Mike Nardini	City Administrator	Indefinite
Corey Goodenow	Finance Director	Indefinite
Bob Stuyvesant	Attorney	January, 2014
Ronda Brown	City Clerk	January, 2014
(After January, 2014)		
James Mueller	Mayor	January, 2016
Mark De Jong	Council Member/ Mayor Pro Tem	January, 2018
Dave Vander Horst	Council Member	January, 2016
Harold Van Stryland	Council Member	January, 2016
Larry J. Peterson	Council Member	January, 2016
Bruce Schiebout	Council Member	January, 2018
Dan Vander Beek	Council Member	January, 2018
Mike Nardini	City Administrator	Indefinite
Corey Goodenow	Finance Director	Indefinite
Bob Stuyvesant	Attorney	January, 2015
Ronda Brown	City Clerk	January, 2015



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Van Maanen, Sietstra, Meyer & Nikkel, PC
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Pella, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Pella, Iowa, as of and for the year ended June 30, 2014, and the related Notes to the Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Pella as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 5-10 and 49-52 be presented to supplement the basic financial

statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Pella's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2013 (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 4, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Governmental Auditing Standards*, we have also issued our report dated February 9, 2015, on our consideration of the City of Pella's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Pella's internal control over financial reporting and compliance.

Van Maanen, Sietstra, Meyer & Nikkel PC

Van Maanen, Sietstra, Meyer & Nikkel, PC
Certified Public Accountants

February 9, 2015

The City of Pella provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2014. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2014 FINANCIAL HIGHLIGHTS

- The assets of the City of Pella exceeded its liabilities at the close of the fiscal year by \$105,961,940 (net position).
- The assets of the City's governmental activities exceeded liabilities by \$47,487,882
- Assets of business type activities exceeded liabilities by \$58,474,058.
- The revenues of the governmental activities exceeded expenses by \$3,362,306.
- Within the City's business-type activities, expenses exceeded revenues by \$3,146,243. The City policy is to set rates that fund operation expenses and debt service requirements of business-type activities. In addition, rates are established to fund capital improvements either through pay-as-you go financing or through debt issues.
- At June 30, 2014, the general fund had an unrestricted fund balance of \$2,050,815 or working capital of nearly 39% of annual expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

The City's basic financial statements consist of government-wide financial statements, fund financial statements, and notes to the financial statements. This discussion and analysis is intended to serve as an introduction to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to private-sector business. The paragraphs below provide a brief description of the government-wide financial statements.

The statement of net position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the changes occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods such as uncollected taxes and earned but unused vacation leave.

The government-wide financial statements are divided into two categories:

Governmental activities - This category consists of services provided by the City that are principally supported by taxes and intergovernmental revenues. Basic City services such as police, fire, public works, planning, parks, the library, and general administration are governmental activities.

Business type activities - These activities are supported primarily by user fees. The services provided by the City in this category, include water, sewer, sanitation services, and electrical utilities.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure compliance with legal requirements for financial transactions and reporting. All of the City's funds can be divided into two categories: governmental funds and proprietary funds.

Governmental funds are used to account for essentially the same functions reported as governmental in the government-wide financial statements. However, unlike the government-wide financial statements, government fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balance of resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near term financial decisions. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains three individual major governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, capital project fund and debt service funds, all of which are considered to be major funds. Data from the other twenty-one governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its general, debt service, capital projects, and special revenue funds. A budgetary comparison schedule has been provided for these funds to demonstrate compliance with this budget.

Proprietary funds can be categorized into two groups, enterprise funds and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its electric, water, sewer, and environmental services utilities. Internal Service funds are accounting devices used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its health insurance program.

The financial statements of the proprietary funds provide the same type of information as the government-wide financial statements with greater detail.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position as noted earlier, may serve as a useful indicator of a government's financial position when observed over time. In the case of the City, assets exceeded liabilities by \$105,961,940 at the close of the most recent fiscal year.

The most significant portion of the city's net position (80.03%) are reflected in capital assets such as land, buildings, infrastructure, machinery, and equipment less any related outstanding debt used to acquire those assets. These capital assets are used to provide services to the citizens and are not available for future spending. A portion of the City's net position (5.58%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of net position or the unrestricted net position of \$9,451,460 may be used to meet the City's ongoing obligations to citizens and creditors.

City of Pella, Iowa
Management Discussion and Analysis
June 30, 2014

	NET POSITION AT YEAR-END					
	Governmental Activities		Business Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 14,964,869	12,318,471	11,724,295	10,487,723	26,689,164	22,806,194
Capital assets	46,347,852	40,848,033	60,660,735	60,837,051	107,008,587	101,685,084
Total assets	61,312,721	53,166,504	72,385,030	71,324,774	133,697,751	124,491,278
Long-term liabilities	4,809,160	2,707,022	10,279,457	6,046,702	15,088,617	8,753,724
Other liabilities	3,778,439	1,598,593	3,631,515	3,657,771	7,409,954	5,256,364
Total Liabilities	8,587,599	4,305,615	13,910,972	9,704,473	22,498,571	14,010,088
Deferred inflows of resources	5,237,240	4,735,313	-	-	5,237,240	4,735,313
Net position:						
Net investment in capital assets	40,799,416	37,877,294	49,799,980	54,348,617	90,599,396	92,225,911
Restricted	4,517,730	4,002,747	1,393,354	357,165	5,911,084	4,359,912
Unrestricted	2,170,736	2,245,535	7,280,724	6,914,519	9,451,460	9,160,054
Total net position	\$ 47,487,882	44,125,576	58,474,058	61,620,301	105,961,940	105,745,877
	CHANGES IN NET POSITION FOR THE YEAR ENDED JUNE 30,					
	Governmental Activities		Business Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues						
Program revenues:						
Charges for service	\$ 613,778	600,901	24,369,269	21,076,051	24,983,047	21,676,952
Operating grants, contributions	1,108,115	1,068,258	-	-	1,108,115	1,068,258
Capital grants, contributions	3,020,507	1,097,186	-	-	3,020,507	1,097,186
General revenues:						
Property tax levied for:						
General purposes	4,487,736	4,036,100	-	-	4,487,736	4,036,100
Debt service	274,962	274,006	-	-	274,962	274,006
Local option taxes	1,242,618	1,179,828	-	-	1,242,618	1,179,828
TIF	414,713	1,460,029	-	-	414,713	1,460,029
Grants & contributions not restricted to specific purposes	38,750	43,131	-	-	38,750	43,131
Payment in lieu of taxes	623,870	445,739	-	-	623,870	445,739
Unrestricted Investment earnings	13,550	13,504	31,801	44,938	45,351	58,442
Miscellaneous	-	5	619,331	1,694,071	619,331	1,694,076
Gain on sale of assets	47,113	20,405	(1,726,542)	3,867	(1,679,429)	24,272
Transfers	194,322	200,363	(194,322)	(200,363)	-	-
Total revenues	12,080,034	10,439,455	23,099,537	22,618,564	35,179,571	33,058,019
Expenses						
General government	710,380	667,226	-	-	710,380	667,226
Public Safety	2,144,944	2,040,594	-	-	2,144,944	2,040,594
Public Works	2,005,890	1,924,567	-	-	2,005,890	1,924,567
Culture & Recreation	2,563,824	2,388,850	-	-	2,563,824	2,388,850
Community & Economic Development	639,517	621,028	-	-	639,517	621,028
Facilities & Acquisition	514,285	167,816	-	-	514,285	167,816
Long-term debt and interest cost	138,888	128,334	-	-	138,888	128,334
Water	-	-	2,118,608	2,000,589	2,118,608	2,000,589
Wastewater	-	-	2,342,147	2,266,770	2,342,147	2,266,770
Sanitation	-	-	588,688	504,061	588,688	504,061
Electric	-	-	21,196,337	20,044,564	21,196,337	20,044,564
Total expenses	8,717,728	7,938,415	26,245,780	24,815,984	34,963,508	32,754,399
Change in net position	3,362,306	2,501,040	(3,146,243)	(2,197,420)	216,063	303,620
Net position beginning of year	44,125,576	41,624,536	61,620,301	63,817,721	105,745,877	105,442,257
Net position end of year	\$47,487,882	44,125,576	58,474,058	61,620,301	105,961,940	105,745,877

FINANCIAL ANALYSIS OF THE FUND FINANCIAL STATEMENTS

Governmental funds provide information on near-term inflows, outflows, and balances of available resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balances serve as a useful measure of a government's net resources available at the end of the fiscal year.

The City's governmental funds reported a combined fund balance of \$6,582,244 at June 30, 2014. This was an increase of \$374,947 from the prior year and was due to the building of revenues for future capital projects. A summary of each of the government major fund balances is as follows:

General Fund

The general fund's balance decreased by \$5,192 in Fiscal Year 2014. As a result, our fund balance decreased to \$2,051,845 which represents approximately 38.69% of annual expenditures. The modest decrease was attributed to a concerted effort to maintain fund balances through disciplined fiscal management. .

Debt Service Fund

The debt service fund balance increased by \$1,991,377 to \$1,996,609. This was largely attributed to the \$3.2 million general obligation local option sales and services tax bond issuance, of which the proceeds will be utilized to make capital repairs to the City's indoor pool in the following fiscal year.

Capital Projects Funds

The capital project funds are comprised of one main fund and five smaller funds which are as follows:

Capital Facilities Fund had a fund balance of \$0 at June 30, 2014. General Fund capital improvement projects are funded out of this fund. Annually the General Fund transfers amounts to cover expenditures made in the Capital Facilities Fund.

Other Capital Facility Funds had a total fund balance of \$0 at June 30, 2014.

Proprietary Funds

The City's proprietary funds provide the same information found in the government-wide financial statements with greater detail.

The combined net position of the enterprise funds at June 30, 2014 totaled \$58,474,058 of which \$7,280,724 is unrestricted. Overall, net position for the enterprise funds decreased by \$3,146,243 largely due to the use of revenue bond proceeds to decommission the City's closed power plant.

The net position of internal service funds, which is comprised of the City's health insurance trust fund decreased from \$741,633 to \$707,526. The majority of the decrease was due to slightly higher than expected claims for the year.

BUDGETARY HIGHLIGHTS

The FY 14 budget was amended on May 6, 2014 for the following reasons:

- Revenues were increased by \$2,500,000 to reflect the actual cost associated with the power plant decommissioning.
- Expenses were increased \$1,025,000 to reflect the actual costs related to the power plant decommissioning.
- Expenses were increased by \$145,684 to reflect the actual cost of improvements to the diesel plant controls.
- Expenses were increased by \$502,710 to reflect improvements made to the electric underground conversion.
- Expenses were increased by \$1,047,294 to reflect actual costs related to the Pella Sports Park.
- Revenues were decreased by \$725,112 to reflect actual proceeds from the 2014 Local Option Sales and Services Tax Bond Issuance.
- Expenses were increased by \$630,100 to reflect costs associated with the Hazel Street Reconstruction Project.
- Expenses were increased by \$117,600 to reflect costs associated with the Fountain Hills Park Construction.
- Expenses were increased by \$117,184 to reflect actual costs for wastewater force main improvements.
- Expenses were increased by \$30,927 to reflect actual cost of asphalt overlay projects.
- Expenses were increased by \$25,500 to replace expiring meter reading equipment.
- Expenses were increased by \$23,600 to reflect actual costs of the improvements to the wastewater treatment plan.
- Expenses were increased by \$22,489 to reflect building repairs to City Hall.

- Expenses were increased by \$20,785 to reflect building repairs to the Community Center.
- Expenses were increased by \$17,080 to reflect repairs to the outdoor pool.
- Expenses were increased by \$16,500 to reflect unanticipated fees for service.
- Expenses were increased by \$10,000 to reflect improvements to the public library.
- Expenses were decreased by \$15,000 to reflect actual cost of repairs to the Huber Street storm sewer.
- Expenses were decreased by \$33,870 to reflect lower than anticipated equipment purchase costs for the Parks Department.
- Expenses were decreased by \$35,000 to reflect actual cost of repairs made to the Morningside/Union Street outfall project.
- Expenses were decreased by \$60,000 due to delays in the implementation of the way finding signage.
- Timing differences for expenses that were budget for fiscal year 2013 but were expended in fiscal year 2014 accounted for \$1,221,844 increase in expenditures.
- Timing differences for expenses that were budget for fiscal year 2014 but will be expended in fiscal year 2015 accounted for \$4,865,740 decrease in expenditures.
- The July 1, 2012 estimated beginning fund balance used for the budget was decreased by \$7,344,729 to match the actual ending fund balance at June 30, 2013.

None of the above variations are expected to have a significant effect on future services or liquidity.

CAPITAL ASSETS

Capital Assets

Major construction projects and purchases along with the associated expenses for the year included the following:

Governmental Activities

Hazel Street Reconstruction was completed \$467,569
Washington Street Reconstruction was completed \$233,667
Residential Street repairs were made in the amount of \$308,524
Resurfacing of the Caldwell Park Tennis Courts for \$65,167
Continued construction of the Pella Sports Park \$3,309,271
Continued construction of the Pella Indoor Pool \$1,305,336
Purchase of two new Police Vehicles for the Police Department \$69,954
Replacement of a community protection siren for \$38,491
Construction of Fountain Hills Park for \$76,635

Water Fund

South Water Tower painting \$149,943
Hazel Street water distribution main replacement \$116,783
Early stage development of the long term water supply plan \$720,904

Wastewater Fund

IDNR bypass mandate improvements \$939,079
Hazel Street collection main replacement \$67,088
Peace Street collection main lining \$240,260
SCADA System upgrade \$23,210

Electric Fund

Diesel Plant Control Upgrades \$616,423
Decommissioning of the City's power plant \$1,281,651
Underground conversions of overhead electrical lines \$823,780
Improvements to the Vermeer service line \$127,609

Additional information concerning the City's capital assets can be found in the notes to the financial statements.

DEBT ADMINISTRATION

At the close of fiscal year ended June 30, 2014, the City had bonds outstanding of \$16,265,180. The City maintains an Aa3 rating from Moody's Investor Services on all its general obligation debt and an A2 on electric revenue debt.

State statutes limit the amount of general obligation debt an Iowa city may issue to five percent of the actual assessed valuation at January 1, 2012. The current general obligation debt limitation for the City is \$33,806,943 and at June 30, 2014 there was \$5,465,000 of outstanding general obligation debt. Therefore, the city's available debt margin is \$28,341,943 or 83.83%.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

While the City has experienced consistent growth in valuation of existing residential and commercial valuations, the past two years have resulted in considerable growth in new residential and commercial construction. This continued growth has led to unemployment rates in Marion County of 4.5%, slightly under the State average of 4.7%. While the local economy continues to expand at a conservative rate, the increasing need to replace aging infrastructure, respond to unfunded mandates by federal and state regulatory agencies and the continuing need to pursue long term water supply plan enhancements may eventually necessitate utility rates increases.

Also of concern is the State's legislative changes to the property tax system, primarily the commercial property and industrial tax classification. While the City's balances maintain the necessary reserves and flexibility to accommodate modest changes, reductions in the ability to collect property tax or reductions in intergovernmental funds may impact the City's ability to continue to maintain or enhance service levels.

Listed below is a brief summary of the City's property and utility rates as established in the Fiscal Year 2015 Budget:

Property Taxes

The City was able to maintain its property tax rate at the historically stable rate of \$10.20/\$1,000 of taxable valuation. The expected rate for FY 2015 continues the City's commitment to maintaining one of the lowest property tax rates in the state.

Electric Rates

The fiscal year 2015 budget includes a rate increase of 3%, effective with the March 31, 2015 billing cycle. The rate increase is necessary to continue to maintain appropriate fund balances following a 5.3% increase in electric rates effective January 1, 2014 from the City's power supplier, Missouri River Energy Services (MRES), as well as an 8.3% increase effective January 1, 2015. Due to the Utility's strong financial position, only half of the \$1.8 million increase is proposed to be passed on to the City's customers. City staff and elected officials will continue to monitor the fiscal condition during the 2015 and 2016 fiscal years to determine the necessity and extent of future rate increases.

Water Rates

For fiscal year 2015, the City expects to initiate a rate increase of 7% effective July 1, 2015. The City has initiated the implementation of the City's \$16 million water supply plan, which will likely require 7% rate increases over each of the next four years to appropriately fund the City's debt service requirements.

Wastewater Rates

In fiscal year 2013 and 2014, modest rate increases were necessary to fund the Iowa Department of Natural Resources (IDNR) mandates to reduce bypassing. No rate increases are projected for fiscal year 2015.

Requests for Information

This financial report is designed to provide a general overview of the City's finances. Questions concerning any of the information provided in this report or request for additional information should be directed to the Finance Director, 825 Broadway Street, Pella, Iowa 50219.

Basic Financial Statements

City of Pella, Iowa
Statement of Net Position
June 30, 2014

	Primary Government		
	Governmental Activities	Business Type Activities	Total
Assets			
Cash, cash equivalents and pooled investments	\$ 4,409,121	6,272,110	10,681,231
Receivables:			
Property tax:			
Delinquent	12,888	-	12,888
Succeeding year	4,587,237	-	4,587,237
Tax increment financing:			
Delinquent	52	-	52
Succeeding year	650,003	-	650,003
Local option sales tax	158,129	-	158,129
Accounts (net of allowance for uncollectibles)	1,015,142	2,308,924	3,324,066
Accrued interest	168	411	579
Due from other governments	28,247	-	28,247
Inventories	-	835,445	835,445
Deposits	-	70,000	70,000
Prepaid expenses	43,437	-	43,437
Restricted assets:			
Cash and pooled investments	4,060,445	2,237,405	6,297,850
Capital assets(net of accumulated depreciation)	46,347,852	60,660,735	107,008,587
Total assets	61,312,721	72,385,030	133,697,751
Liabilities			
Excess of warrants over bank balance	\$ 3,569	-	3,569
Accounts payable and accrued liabilities	2,250,995	2,329,303	4,580,298
Salaries and benefits payable	182,670	65,229	247,899
Deposits	625	114,005	114,630
Accrued interest payable	13,699	50,289	63,988
Long-term liabilities:			
Portion due or payable within one year:			
General obligation bonds/notes, net	1,225,345	-	1,225,345
Revenue bonds payable, net	-	986,439	986,439
Compensated absences	101,536	86,250	187,786
Portion due or payable after one year:			
General obligation bonds, net	4,323,091	-	4,323,091
Revenue bonds payable, net		9,874,316	
Compensated absences	406,147	345,002	751,149
Net OPEB liability	79,922	60,139	140,061
Total liabilities	8,587,599	13,910,972	22,498,571

City of Pella, Iowa
Statement of Net Position
June 30, 2014

See notes to financial statements.

City of Pella, Iowa
Statement of Activities
Year ended June 30, 2014

Functions/Programs	Program Revenues			
	Expenses	Charges for Service	Operating Grants, Contributions & Restricted Interest	Capital Grants, Contributions & Restricted Interest
Governmental activities:				
Public safety	\$ 2,144,944	59,298	21,484	-
Public works	2,005,890	26,360	1,035,787	989,241
Culture and recreation	2,563,824	414,460	50,844	-
Community and economic development	639,517	91,971	-	-
General government	710,380	21,689	-	-
Long-term debt costs and interest	138,888	-	-	-
Facilities and acquisition	514,285	-	-	2,031,266
Total governmental activities	8,717,728	613,778	1,108,115	3,020,507
Business type activities:				
Water	2,118,608	2,094,819	-	-
Wastewater	2,342,147	2,088,377	-	-
Sanitation	588,688	626,684	-	-
Electric	21,196,337	19,559,389	-	-
Total business type activities	26,245,780	24,369,269	-	-
Total primary government	\$ 34,963,508	24,983,047	1,108,115	3,020,507
General Revenues:				
Property and other city tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Grants and contributions not restricted to specific programs				
Payments in lieu of taxes				
Unrestricted investment earnings				
Miscellaneous				
Gain(loss) on sale/disposal of assets				
Transfers				
Total general revenues and transfers				
Change in net position				
Net position beginning of year				
Net position end of year				
See notes to financial statements.				

Exhibit B

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business Type Activities	Total
(2,064,162)	-	(2,064,162)
45,498	-	45,498
(2,098,520)	-	(2,098,520)
(547,546)	-	(547,546)
(688,691)	-	(688,691)
(138,888)	-	(138,888)
1,516,981	-	1,516,981
(3,975,328)	-	(3,975,328)
-	(23,789)	(23,789)
-	(253,770)	(253,770)
-	37,996	37,996
-	(1,636,948)	(1,636,948)
-	(1,876,511)	(1,876,511)
(3,975,328)	(1,876,511)	(5,851,839)
4,487,736	-	4,487,736
274,962	-	274,962
414,713	-	414,713
1,242,618	-	1,242,618
38,750	-	38,750
623,870	-	623,870
13,550	31,801	45,351
-	619,331	619,331
47,113	(1,726,542)	(1,679,429)
194,322	(194,322)	-
7,337,634	(1,269,732)	6,067,902
3,362,306	(3,146,243)	216,063
44,125,576	61,620,301	105,745,877
\$ 47,487,882	58,474,058	105,961,940

City of Pella, Iowa
Balance Sheet
Governmental Funds
June 30, 2014

	Major Funds			Non-major	
	General	Capital Projects	Debt Service	Other Governmental Funds	Total
Assets					
Cash, cash equivalents and pooled investments	\$ 2,377,357	971,401	1,995,811	2,416,683	7,761,252
Receivables:					
Property tax:					
Delinquent	10,305	-	798	1,785	12,888
Succeeding year	3,698,662	-	275,267	613,308	4,587,237
Tax increment financing:					
Delinquent	-	-	-	52	52
Succeeding year	-	-	-	650,003	650,003
Local option sales tax	-	-	-	158,129	158,129
Accounts receivable, miscellaneous	3,431	1,008,944	-	2,767	1,015,142
Accrued interest	96	9	-	20	125
Due from other governments	17,004	11,243	-	-	28,247
Prepaid expenditures	1,030	-	-	-	1,030
Total assets	\$ 6,107,885	1,991,597	2,271,876	3,842,747	14,214,105
Liabilities, Deferred Inflows of Resources and Fund Balances					
Liabilities:					
Excess of warrants over bank balance	\$ -	-	-	3,569	3,569
Accounts payable and accrued liabilities	186,259	1,991,597	-	29,901	2,207,757
Salaries and benefits payable	171,119	-	-	11,551	182,670
Customer deposits	-	-	-	625	625
Total liabilities	357,378	1,991,597	-	45,646	2,394,621
Deferred inflows of resources:					
Unavailable revenues:					
Succeeding year property tax	3,698,662	-	275,267	613,308	4,587,237
Tax increment financing	-	-	-	650,003	650,003
Total deferred inflows of resources	3,698,662	-	275,267	1,263,311	5,237,240
Fund balances:					
Nonspendable:					
Prepaid expenditures	1,030	-	-	-	1,030
Permanent Trust	-	-	-	140,000	140,000
Restricted for:					
Debt Service	-	-	1,996,609	-	1,996,609
Capital projects	-	-	-	-	-
Other purposes	-	-	-	2,393,790	2,393,790
Unassigned	2,050,815	-	-	-	2,050,815
Total fund balances	2,051,845	-	1,996,609	2,533,790	6,582,244
Total liabilities, deferred inflows of resources and fund balances	\$ 6,107,885	1,991,597	2,271,876	3,842,747	14,214,105

See notes to financial statements.

Exhibit D

City of Pella, Iowa
Reconciliation of the Balance Sheet
Governmental Funds to the Statement of Net Position
June 30, 2014

Total fund balances of governmental funds (Exhibit C) \$ 6,582,244

***Amounts reported for governmental activities in the
statement of net assets are different because:***

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds. The cost of assets is \$68,438,18 and the accumulated depreciation is \$22,090,296. 46,347,852

An internal service fund is used by management to track the collection and payment of various employee benefits. The assets and liabilities of the internal service fund are included in the statement of net position. 707,526

Long-term liabilities, including bonds/notes payable, bond discounts or premiums (initial and amortized), bond issuance costs (initial and amortized), compensated absences payable, other postemployment benefits payable, and accrued interest payable are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. (6,149,740)

Net position of governmental activities (Exhibit A) \$ 47,487,882

See notes to financial statements.

Exhibit E

City of Pella, Iowa
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year ended June 30, 2014

	Major Funds			Non-major	
				Other	
	General	Capital Projects	Debt Service	Governmental Funds	Totals
Revenues:					
Property tax	\$ 3,444,011	-	274,962	590,566	4,309,539
Tax increment financing	-	-	-	414,713	414,713
Local option sales tax	-	-	-	998,237	998,237
Other city taxes	444,446	-	1,121	7,592	453,159
Licenses and permits	104,104	-	-	-	104,104
Use of money and property	48,441	653	542	5,485	55,121
Intergovernmental	677,054	11,243	-	1,294,177	1,982,474
Charges for services	410,985	-	-	540	411,525
Miscellaneous	63,401	1,979,370	-	37,579	2,080,350
Total revenues	5,192,442	1,991,266	276,625	3,348,889	10,809,222
Expenditures:					
Operating:					
Public safety	1,960,403	-	-	11,154	1,971,557
Public works	350,820	-	-	782,759	1,133,579
Culture and recreation	2,020,786	-	-	49,290	2,070,076
Community and economic development	438,638	-	-	200,035	638,673
General government	532,378	-	-	1,717	534,095
Debt service	-	-	998,354	-	998,354
Capital projects	-	6,609,085	-	-	6,609,085
Total expenditures	5,303,025	6,609,085	998,354	1,044,955	13,955,419
Excess (deficiency) of revenues over (under) expenditures	(110,583)	(4,617,819)	(721,729)	2,303,934	(3,146,197)
Other financing sources (uses):					
Operating transfers in	902,995	4,501,896	688,800	248,524	6,342,215
Operating transfers (out)	(800,912)	(76,838)	(1,250,572)	(4,019,571)	(6,147,893)
General obligation bonds issued	-	-	3,200,000	-	3,200,000
Discount on general obligation bonds issued	-	-	(12,832)	-	(12,832)
Premium on general obligation bonds issued	-	-	87,710	-	87,710
Unrealized gains (losses) on investments	-	-	-	136	136
Proceeds from sale of assets	3,308	48,500	-	-	51,808
Total other financing sources (uses)	105,391	4,473,558	2,713,106	(3,770,911)	3,521,144
Change in fund balances	(5,192)	(144,261)	1,991,377	(1,466,977)	374,947
Fund balances beginning of year	2,057,037	144,261	5,232	4,000,767	6,207,297
Fund balances end of year	\$ 2,051,845	-	1,996,609	2,533,790	6,582,244

See notes to financial statements.

City of Pella, Iowa

**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds to the Statement of Activities
Year ended June 30, 2014**

Change in fund balances - Total governmental funds (Exhibit E) **\$ 374,947**

***Amounts reported for governmental activities in the
Statement of Activities are different because:***

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. Capital outlay expenditures and depreciation expense in the current year are as follows:

Expenditures for capital assets	\$ 7,124,041	
Loss on equipment disposal	(4,695)	
Depreciation expense	<u>(1,619,527)</u>	5,499,819

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position. Also governmental funds report the effect of bond discounts and premiums, whereas these amounts are deferred and amortized in the Statement of Activities.

Current year items are as follows:

General obligation bond proceeds	(3,200,000)	
Discount on GO bond proceeds	12,832	
Premium on GO bond proceeds	(87,710)	
Principal payments of general obligation bonds	850,000	
Amortization of bond premiums	17,179	
Amortization of bond discounts and previous issuance costs	<u>(3,440)</u>	(2,411,139)

An internal service fund is used by management to track collections of medical and dental insurance premiums and Section 125 deductions from the employer and employee as well as disbursements for health and dental insurance premiums and claims, Section 125 claims, and other employee benefits.

Interest revenue from governmental internal service fund	3,202	
Employer funds for benefits shifted from other funds	613,316	
Employee benefits collected through withholding	210,970	
Claims and premiums paid out	<u>(861,595)</u>	(34,107)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Compensated absences	(50,395)	
Other postemployment benefits	(12,546)	
Interest on long-term debt	<u>(4,273)</u>	(67,214)

Change in net position of governmental activities (Exhibit B) **\$ 3,362,306**

See notes to financial statements.

City of Pella, Iowa
Statement of Net Position
Proprietary Funds
June 30, 2014

	Business Type Activities					Governmental Activities
	Enterprise Funds					Internal Service Funds
	Water	Wastewater	Electric	Sanitation	Totals	
Assets						
Current assets:						
Cash, cash equivalents and pooled investments	\$ 861,498	200,259	5,097,110	113,243	6,272,110	708,314
Receivables:						
Accrued interest	95	12	297	7	411	43
Trade (net of allowance for uncollectible)	188,339	180,470	1,886,125	53,990	2,308,924	-
Inventories	174,030	114,243	547,172	-	835,445	-
Security Deposit			70,000		70,000	-
Prepaid expenses	-	-	-	-	-	42,407
Restricted assets:						
Cash and pooled investments	549,000	433,580	1,214,739	40,086	2,237,405	-
Total current assets	1,772,962	928,564	8,815,443	207,326	11,724,295	750,764
Non-current assets:						
Capital assets (net of accumulated depreciation/amortization)	7,939,039	13,098,126	39,623,570	-	60,660,735	-
Total non-current assets	7,939,039	13,098,126	39,623,570	-	60,660,735	-
Total assets	\$ 9,712,001	14,026,690	48,439,013	207,326	72,385,030	750,764
Liabilities						
Current liabilities:						
Accounts payable and accrued liabilities	\$ 421,376	50,037	1,817,301	40,589	2,329,303	43,238
Salaries and benefits payable	17,228	12,408	34,733	860	65,229	-
Accrued interest payable	910	14,105	35,274	-	50,289	-
Compensated absences payable	20,331	18,316	47,548	55	86,250	-
Payable from restricted assets:						
Revenue notes, net	292,039	433,580	260,820	-	986,439	-
Deposits	-	-	114,005	-	114,005	-
Total current liabilities	751,884	528,446	2,309,681	41,504	3,631,515	43,238
Noncurrent liabilities:						
Revenue notes, net	450,600	6,121,000	3,302,716	-	9,874,316	-
Compensated absences payable	81,323	73,265	190,192	222	345,002	-
Net OPEB liability	14,774	13,715	31,057	593	60,139	-
Total noncurrent liabilities	546,697	6,207,980	3,523,965	815	10,279,457	-
Total liabilities	1,298,581	6,736,426	5,833,646	42,319	13,910,972	43,238
Net Position						
Net investment in capital assets	7,196,400	6,543,546	36,060,034	-	49,799,980	-
Restricted for:						
Nonexpendable:						
Security Deposit	-	-	70,000	-	70,000	-
Expendable:						
Revenue note retirement	254,000	-	1,029,268	-	1,283,268	-
Other	-	-	-	40,086	40,086	-
Unrestricted	963,020	746,718	5,446,065	124,921	7,280,724	707,526
Total net position	\$ 8,413,420	7,290,264	42,605,367	165,007	58,474,058	707,526

See notes to financial statements

Exhibit H

City of Pella, Iowa
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
June 30, 2014

	Business Type Activities					Governmental Activities
	Enterprise Funds					Internal Service Funds
	Water	Wastewater	Electric	Sanitation	Totals	
Operating revenues:						
Charges for service (pledged for revenue notes)	\$ 2,063,320	2,064,232	17,119,396	626,684	21,873,632	-
Miscellaneous	31,499	24,145	2,439,993	-	2,495,637	-
Internal service charges	-	-	-	-	-	824,286
Total operating revenues	2,094,819	2,088,377	19,559,389	626,684	24,369,269	824,286
Operating expenses:						
Business type activities:						
Personnel services	723,595	531,942	1,733,693	41,055	3,030,285	-
Contractual	54,000	31,366	-	523,774	609,140	699,717
Franchise fees	51,408	41,308	-	-	92,716	-
Materials and Supplies	610,281	522,042	3,679,243	23,859	4,835,425	-
Purchased power	-	-	12,164,186	-	12,164,186	-
Payments in lieu of taxes	-	-	623,870	-	623,870	-
Payments in lieu of services	-	-	47,515	-	47,515	-
Depreciation/Amortization	640,453	957,924	1,591,974	-	3,190,351	-
Claims expense	-	-	-	-	-	161,878
Total operating expenses	2,079,737	2,084,582	19,840,481	588,688	24,593,488	861,595
Operating income (loss)	15,082	3,795	(281,092)	37,996	(224,219)	(37,309)
Non-operating revenues (expenses):						
Decommissioning costs	-	-	(1,281,651)	-	(1,281,651)	-
Debt costs and interest	(38,871)	(257,565)	(74,205)	-	(370,641)	-
Interest income	7,643	1,362	22,238	558	31,801	3,202
Rents	-	17,044	-	-	17,044	-
Sale/disposal of fixed assets	(1,282)	(2,332)	(1,722,928)	-	(1,726,542)	-
Miscellaneous revenues	289,406	305,841	-	7,040	602,287	-
Net non-operating revenues (expenses)	256,896	64,350	(3,056,546)	7,598	(2,727,702)	3,202
Income (loss) before operating transfers	271,978	68,145	(3,337,638)	45,594	(2,951,921)	(34,107)
Transfers in, (out)	43,619	(158,961)	(23,715)	(55,265)	(194,322)	-
Net other financing sources (uses)	43,619	(158,961)	(23,715)	(55,265)	(194,322)	-
Change in net position	315,597	(90,816)	(3,361,353)	(9,671)	(3,146,243)	(34,107)
Net position beginning of year	8,097,823	7,381,080	45,966,720	174,678	61,620,301	741,633
Net position end of year	\$ 8,413,420	7,290,264	42,605,367	165,007	58,474,058	707,526

See notes to financial statements.

City of Pella, Iowa
Statement of Cash Flows
Proprietary Funds
Year ended June 30, 2014

	Business Type Activities					Governmental
	Enterprise Funds					Activities
	Water	Wastewater	Electric	Sanitation	Total	Internal Service Funds
Cash flows from operating activities:						
Cash received from customers and users	\$ 2,081,425	2,077,643	19,461,299	626,624	24,246,991	
Cash received from internal service charges	-	-	-	-	-	824,286
Cash paid for personal services	(714,465)	(527,235)	(1,700,034)	(41,674)	(2,983,408)	-
Cash paid to suppliers	(528,388)	(626,642)	(16,326,070)	(507,091)	(17,988,191)	(841,638)
Replacement tax, transfers	-	-	(623,870)	-	(623,870)	-
Net cash provided (used) by operating activities	838,572	923,766	811,325	77,859	2,651,522	(17,352)
Cash flows from non-capital financing activities:						
Miscellaneous receipts	289,406	322,885	-	7,040	619,331	-
Transfers in (out)	43,619	(158,961)	(23,715)	(55,265)	(194,322)	-
Net cash provided (used) by non-capital financing activities	333,025	163,924	(23,715)	(48,225)	425,009	-
Cash flows from capital and related financing activities:						
Acquisition and construction of capital assets	(1,140,663)	(1,342,357)	(1,685,052)	-	(4,168,072)	-
Decommissioning costs	-	-	(1,281,651)	-	(1,281,651)	-
Principal paid on revenue notes	(370,000)	(266,000)	-	-	(636,000)	-
Proceeds from revenue bonds issued	450,600	990,952	3,565,961	-	5,007,513	-
Interest costs (not capitalized)	(24,604)	(155,710)	-	-	(180,314)	-
Other long-term debt costs	(5,922)	(14,763)	(41,356)	-	(62,041)	-
Proceeds from sale of capital assets	1,050	-	21,692	-	22,742	-
Net cash provided (used) by capital and related financing activities	(1,089,539)	(787,878)	579,594	-	(1,297,823)	-
Cash flows from investing activities:						
Proceeds from (deposits into) investments	(273,938)	(312,830)	16,536	(1,100)	(571,332)	(5,914)
Interest on investments	7,638	1,361	22,328	558	31,885	3,199
Net cash provided (used) by investing activities	(266,300)	(311,469)	38,864	(542)	(539,447)	(2,715)
Net increase (decrease) in cash and cash equivalents	(184,242)	(11,657)	1,406,068	29,092	1,239,261	(20,067)
Cash and cash equivalents at beginning of year	1,541,080	629,968	4,625,074	117,863	6,913,985	691,479
Cash and cash equivalents at end of year	\$ 1,356,838	618,311	6,031,142	146,955	8,153,246	671,412

City of Pella, Iowa
Statement of Cash Flows
Proprietary Funds
Year ended June 30, 2014

Continued from previous page

Reconciliation of operating income (loss) to net cash provided (used) by operating activities:

	Business Type Activities					Governmental Activities
	Enterprise Funds					Internal Service Funds
	Water	Wastewater	Electric	Sanitation	Total	
Operating income (loss)	\$ 15,082	3,795	(281,092)	37,996	(224,219)	(37,309)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation/Amortization	640,453	957,924	1,591,974	-	3,190,351	-
Change in assets and liabilities:						
(Increase) decrease in receivables	(13,394)	(10,734)	(98,090)	(60)	(122,278)	-
(Increase) decrease in inventory	(73,383)	5,766	77,330	-	9,713	-
(Increase) decrease in prepaid expense	-	-	-	-	-	1,719
Increase (decrease) in accounts payable	260,684	(37,692)	(519,934)	40,542	(256,400)	18,238
Increase (decrease) in accrued expenses	1,501	2,031	(744)	260	3,048	-
Increase (decrease) in compensated absences	5,095	317	29,800	(430)	34,782	-
Increase in deposits held			7,478		7,478	-
Increase (decrease) in other postemployment benefits	2,534	2,359	4,603	(449)	9,047	-
Total adjustments	823,490	919,971	1,092,417	39,863	2,875,741	19,957
Net cash provided (used) by operating activities	\$ 838,572	923,766	811,325	77,859	2,651,522	(17,352)

Reconciliation of cash and cash equivalents at year end to specific assets included on the Statement of Net Position:

Current assets:

Unrestricted assets:

Cash, cash equivalents and pooled investments	\$ 861,498	200,259	5,097,110	113,243	6,272,110	708,314
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Restricted assets:

Cash and pooled investments:

Revenue note retirement	295,000	433,580	1,029,268	-	1,757,848	-
Water bond reserve	254,000	-	-	-	254,000	-
Electric security deposit	-	-	70,000	-	70,000	-
Customer deposits & project share	-	-	115,471	-	115,471	-
Sanitation totes	-	-	-	40,086	40,086	-
	549,000	433,580	1,214,739	40,086	2,237,405	-

Total cash, cash equivalents and pooled investments	1,410,498	633,839	6,311,849	153,329	8,509,515	708,314
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Less items not meeting definition of cash and cash equivalent:

Certificates of deposit	(27,245)	(7,884)	(142,527)	(3,236)	(180,892)	(18,737)
Iowa Public Agency Investment Trust	(26,415)	(7,644)	(138,180)	(3,138)	(175,377)	(18,165)
	(53,660)	(15,528)	(280,707)	(6,374)	(356,269)	(36,902)

Cash and cash equivalents at year end	\$ 1,356,838	618,311	6,031,142	146,955	8,153,246	671,412
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Exhibit I

City of Pella, Iowa
Statement of Cash Flows
Proprietary Funds
Year ended June 30, 2014

Continued from previous page

**Non-cash investing, capital and financing
activities:**

	Business Type Activities					Governmental Activities
	Enterprise Funds					Internal Service Funds
	Water	Wastewater	Electric	Sanitation	Total	
Current premium paid	\$ -	-	(82,411)	-	(82,411)	-
Current premium amortization, prior cash payment	-	-	3,030	-	3,030	-
Current discount received	-	-	16,450	-	16,450	-
Current discount amortization, prior cash receipt	(3,233)	-	(605)	-	(3,838)	-
Donated Water capital assets	289,406					
Donated Wastewater capital assets	305,841					

See notes to financial statements.

(1) **Summary of Significant Accounting Policies**

The City of Pella, Iowa is a political subdivision of the State of Iowa located in Marion County. It was incorporated in 1868 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development and general government services. It also provides water, sewer, electrical and sanitation utilities.

The financial statements of the City of Pella, Iowa, are prepared in conformity with U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, the City of Pella has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City of Pella has no component units which meet the Governmental Accounting Standards Board criteria.

While the South Central Regional Airport Agency did not fit the criteria to be included as a component unit, disclosure about the nature of the relationship and accountability is required. The City of Pella, City of Oskaloosa and Mahaska County have entered into a 28E Agreement known as the South Central Regional Airport Agency. The City of Pella appoints 3 of the 6 members on the board. Four votes are required for a majority to approve matters. Capital expenditures are reimbursed 90% by the Federal Aviation Authority, 5% by the City of Pella and 5% by the City of Oskaloosa. Operating expenditures are reimbursed 60% by the City of Pella and 40% by the City of Oskaloosa. The South Central Regional Airport Agency had a separate audit. Financial statements are available at the Pella City Hall, 825 Broadway Street, Pella, IA 50219 or the Oskaloosa City Hall, 220 S. Market St., Oskaloosa, IA 52577, 641-673-9431.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Position and the Statement of Activities report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are supported by property tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Position presents the City's non-fiduciary assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Net position is reported in the following categories:

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction, or improvement of those assets.

Restricted net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

(1) ***Summary of Significant Accounting Policies (continued from previous page)***

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax revenues from general and emergency levies and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, the fixed charges and the capital improvement costs not paid from other funds.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities and other capital assets.

The Debt Service Fund is used to account for property tax and other revenues to be used for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

Enterprise:

The Water Fund is used to account for the operation and maintenance of the City's water system.

The Wastewater Fund is used to account for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Sanitation Fund is used to account for the operation and maintenance of the City's solid waste collection system.

The Electric Fund is used to account for the operation and maintenance of the City's electricity production, procurement and transmission system.

In addition, the City reports the following fund types:

The Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

These non-major governmental funds are grouped for financial statement reporting purposes:

Special Revenue:

The Pella Business Corridor Tax Increment Financing Fund is used to account for revenues from the tax authorized by ordinance in the urban renewal district and used to pay the principal and interest on the general obligation capital loan notes and other indebtedness incurred for urban renewal redevelopment projects.

The High Point Tax Increment Financing fund is used to account for revenues from the tax authorized by ordinance in the urban renewal district and used to pay the principal and interest on the general obligation capital loan notes and other indebtedness incurred for urban renewal redevelopment projects.

(1) **Summary of Significant Accounting Policies (continued from previous page)**

The Road Use Tax fund is used to account for road construction and maintenance.

The Local Option Sales Tax fund is used to account for the revenues from the tax authorized by referendum and used for aquatic center, debt relief, capital improvements, equipment and community programs and services.

The Employee Benefits fund is used to account for property tax levied to finance the payment of employee benefits.

The Pella Clothing Bank, Police Reserve, Community Development Trust, Carnegie-Viersen Library Gift/Memorial, Pella Community Center Trust, Pella Community Center Van Trust, Art Center Trust, Airport Trust, Police Asset Forfeiture, Soccer Complex, Community Gardens Trust, Community Service Scholarship Trust, Parks Development, and Carnegie-Viersen-Van Gorp Trust funds receive proceeds from specific revenue sources that are legally restricted to expenditures for specific purposes.

The Permanent funds resources are restricted to the extent that only earnings and not principal may be used for purposes that support the reporting government's programs. That is, for the benefit of the government or its citizenry.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days after year end.

Property tax, local option sales tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the City.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Under terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general revenues.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Enterprise Funds is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

(1) Summary of Significant Accounting Policies (continued from previous page)

The City maintains its financial records on the modified accrual basis. The financial statements of the City are prepared by making memorandum adjusting entries to the modified accrual basis financial records.

D. Assets, Liabilities Deferred Inflows of Resources and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Cash Equivalents and Pooled Investments - The cash balances of most City funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Public Agency Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost. Interest earned on investments is recorded in the General Fund unless otherwise provided by law.

For purposes of the Statement of Cash Flows, all short-term cash investments that are highly liquid (including restricted assets) are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Trade receivables – Trade receivables are recorded in the enterprise funds at the time the service is billed. Unbilled usage for service consumed between periodic scheduled billing dates is estimated and is recognized as revenue in the period in which the service is provided. Trade receivables for the enterprise funds are listed net of an allowance for uncollectible accounts. The allowance for uncollectible accounts is calculated each year. See note 3.

Inventories - Inventories are valued at cost using the first-in/first-out method. Inventories in the Enterprise Funds consist of materials and supplies. Inventories are recorded as expenses when consumed rather than when purchased.

Property Taxes Receivable, Including Tax Increment Financing - Property tax, including tax increment financing, in governmental funds is accounted for using the modified accrual basis of accounting. Property taxes receivable represent taxes received by or expected to be received within 60 days after year end.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the City to the County Board of Supervisors. Current year property tax receivable represents taxes collected by the County but not remitted to the City at June 30, 2014 and unpaid taxes. The succeeding year property tax receivable represent taxes certified by the City to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the City is required to certify its budget to the County Auditor by March 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenues recognized in these funds become due and collectible in September and March of the current fiscal year with a 1½ % per month penalty for delinquent payments; is based on January 1, 2012 assessed property valuations; is for the tax accrual period July 1, 2013 through June 30, 2014 and reflects tax asking contained in the budget certified to the County Board of Supervisors in March, 2013.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Restricted Assets - Funds set aside for payment of Enterprise Fund revenue notes are classified as restricted assets since their use is restricted by applicable note indentures. Other restricted assets include special purpose funds and customer deposits restricted for application to unpaid customer accounts or for refund to customers.

(1) **Summary of Significant Accounting Policies (continued from previous page)**

Capital Assets - Capital assets, which include property, equipment, vehicles and infrastructure assets acquired after July 1, 1980 (e.g. roads, curbs, gutters, sidewalks and similar items which are immovable and of value only to the City) are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Position and in the Proprietary Funds Statement of Net Position. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair not adding to the value of the asset or materially extending asset lives are not capitalized. Reportable capital assets are defined by the City as assets with an initial, individual cost in excess of \$5,000, or lower if they want to specifically track and identify the asset such as computer purchases, and estimated useful lives in excess of five years.

Capital assets depreciated using the straight line method of depreciation over the following estimated useful lives in years, are as follows:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Roads	20-50
Wastewater, Water and Electrical Systems	25-75
Buildings	40
Improvements	25-35
Furniture, fixtures, and equipment	5-35
Vehicles	5-7

Capitalized Interest - Interest costs are capitalized when incurred by proprietary funds on debt where proceeds were used to finance the construction of assets. Interest earned on proceeds of tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized. Capital improvements made in the water, sewer and electric funds were financed with existing revenues, no interest on debt was incurred or capitalized.

Deferred Inflows of Resources - Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources consist of property tax receivable and other receivables not collected within sixty days after year end.

Deferred inflows of resources in the Statement of Net Position consist of succeeding year property tax and tax increment financing receivable that will not be recognized as revenue until the year for which they are levied.

Compensated Absences - Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Vested or accumulated vacation leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees.

All vested vacation leave is in current compensated absences. In accordance with the provisions of Governmental Accounting Standards Board Statement 16, "Accounting for Compensated Absences," no liability is recorded for non-vesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that it is estimated will be taken as "terminal leave" prior to retirement. One year sick pay allocation is included in current compensated absences. Sick pay which has built up in an employees account, but is not expected to be paid in the current year is in long-term compensated absences. Liabilities have been computed based on rates of pay as of June 30, 2014.

(1) **Summary of Significant Accounting Policies (continued from previous page)**

Long-term Liabilities – In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business type activities column in the Statement of Net Position and the proprietary fund Statement of Net Position.

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity – In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Committed – Amounts which can be used only for specific purposes determined pursuant to constraints formally imposed by the City Council through ordinance or resolution approved prior to year end. Those committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same action it employed to commit those amounts.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2014, disbursements exceeded the amount budgeted in the public safety, debt service and business type activities functions.

(2) **Cash and Pooled Investments**

The City's deposits at June 30, 2014 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's investments at June 30, 2014 are as follows:

Certificates of deposit	\$	254,882
Iowa Public Agency Investment Trust		247,108
Money Market Liquid Funds		42,086
Government Bonds		13,428
Total	\$	<u>557,504</u>

The investments in the Iowa Public Agency Investment Trust are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk: The investment in the Iowa Public Agency Investment Trust is rated Aaa by Moody's Investors Service. The investments in Government Bonds are primarily invested in U.S. Treasury securities.

(3) Trade Accounts Receivable and Allowance for Uncollectibles

Utility revenue is recorded when earned. Customers are billed monthly. The City Municipal Water, Wastewater, Sanitation, and Electric Utility's trade accounts receivable is based on actual customer billings. If a customer defaults on their bill, current policy does not remove their balance or details from accounts receivable. The idea being, if that same party seeks utility service from one of the municipal utilities it will not be provided until the old bill is paid. To compensate for these uncollectible balances, the allowance for uncollectible accounts includes 100% of accounts 60 days or older and 50% of accounts 30 days old. An allowance for uncollectibles has been calculated for the following enterprise funds: Electric, Water, Wastewater and Sanitation. Amounts are as follows: \$254,719, \$43,460, \$40,665 and \$17,273, respectively.

(4) Proprietary Revenues Net of Discounts and Allowances

Enterprise Fund	Gross Charges for Services	(Increase) Decrease in Allowance	Net Charges for Service
Water	\$ 2,059,846	3,474	2,063,320
Wastewater	2,065,915	(1,683)	2,064,232
Electric	17,125,972	(6,576)	17,119,396
Sanitation	627,170	(486)	626,684
Total	\$ 21,878,903	(5,271)	21,873,632

(5) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(6) Emission Credits

The Electric Fund earns emission credits throughout the year. These credits are expended if emissions are below EPA set requirements. The City has no cost in the credits; therefore, according to available accounting guidance, they have not been recorded in the financial statements. The credits are potentially saleable, however, and should the City's emissions be below acceptable levels, these credits would offset otherwise imposed costs. Emission credit activity and value of the unused credits for the year ended June 30, 2014 is as follows:

Credit Type	Number of Credits					Value	
	7/1/2013	Earned	Used/ Transferred	Bought/Sold	6/30/2014	Each	Total
SO2 (1 Ton)	8,492	0	0	0	8,492	\$1.20	\$ 10,190
SO2 (.5 Ton)	7,056	0	0	0	7,056	0.60	4,234
Nox(Annual)	217	119	0	0	336	55.00	18,480
Nox(Seasonal)	181	54	0	0	235	20.00	4,700
Total	15,946	173	0	0	16,119		\$ 37,604

(7) **Capital Assets**

Capital assets activity for the year ended June 30, 2014 was as follows:

Primary Government:	Balance			Balance
	Beginning of			End of
Governmental activities:	Year	Increases	Decreases	Year
Capital assets not being depreciated:				
Land	\$ 5,450,589	40,000	-	5,490,589
Construction in progress:				
Washington & Broadway Intersection	91,505	156,829	248,334	-
Renovation of Indoor Pool	115,767	1,305,336	-	1,421,103
Hazel St. Reconstruction	35,049	467,569	502,618	-
Sports Park	1,874,609	3,309,271	-	5,183,880
Oskaloosa St. project	-	12,381	-	12,381
Fire Dept. Rescue Trailer	-	2,329	-	2,329
Airport Runway Rehab	-	13,167	-	13,167
Comprehensive Plan	-	79,173	-	79,173
Fountain Hills Park	-	76,635	-	76,635
2015 Chevy 1 Ton Truck	-	24,253	-	24,253
Total capital assets not being depreciated	7,567,519	5,486,943	750,952	12,303,510
Capital assets being depreciated:				
Vehicles	1,394,968	245,464	84,592	1,555,840
Buildings and improvements	25,671,932	201,347	-	25,873,279
Machinery and equipment	5,606,471	160,322	62,841	5,703,952
Infrastructure	21,220,650	1,780,917	-	23,001,567
Total capital assets being depreciated	53,894,021	2,388,050	147,433	56,134,638
Less accumulated depreciation for:				
Vehicles	733,111	187,195	79,897	840,409
Buildings and improvements	6,974,436	674,937	-	7,649,373
Machinery and equipment	5,091,943	105,404	62,841	5,134,506
Infrastructure	7,814,017	651,991	-	8,466,008
Total accumulated depreciation	20,613,507	1,619,527	142,738	22,090,296
Total capital assets being depreciated net	33,280,514	768,523	4,695	34,044,342
Governmental activities capital assets, net	\$ 40,848,033	6,255,466	755,647	46,347,852

(7) *Capital assets (continued from previous page)*

Business type activities:

Water Fund:

Capital assets not being depreciated:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Land	\$ 118,360	-	-	118,360

Construction in progress:

Hazel Water Main	3,439	116,783	120,222	-
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Membrane Treatment Addition	68,232	547,041	-	615,273
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South Tower Painting	205,521	149,943	355,464	-
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Source Water-Jordan Well	-	173,863	-	173,863
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Total capital assets not being depreciated	395,552	987,630	475,686	907,496
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Capital assets being depreciated:

Buildings and improvements	9,754,111	355,464	-	10,109,575
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Machinery and equipment	963,177	17,419	5,280	975,316
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Furniture and fixtures	1,079	-	-	1,079
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Vehicles	94,043	25,243	5,136	114,150
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Infrastructure	5,757,355	519,999	-	6,277,354
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Total capital assets being depreciated	16,569,765	918,125	10,416	17,477,474
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Less accumulated depreciation for:

Buildings and improvements	6,242,528	286,299	-	6,528,827
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Machinery and equipment	653,260	104,263	2,948	754,575
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Furniture and fixtures	1,079	-	-	1,079
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Vehicles	90,677	5,883	5,136	91,424
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Infrastructure	2,826,018	244,008	-	3,070,026
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Total accumulated depreciation	9,813,562	640,453	8,084	10,445,931
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Total capital assets being depreciated net	6,756,203	277,672	2,332	7,031,543
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Water - capital assets, net	\$ 7,151,755	1,265,302	478,018	7,939,039
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(7) *Capital assets (continued from previous page)*

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Wastewater Fund:				
Capital assets not being depreciated:				
Land	\$ 907,049	-	-	907,049
Construction in Progress:				
IDNR Bypass Mandate Improvements	2,234,764	96,895	2,331,659	-
Hazel St. Sewer	1,310	67,088	68,398	-
Lift Station #2 Force Main	31,735	842,184	873,919	-
Franklin St. Sanitary Sewer	-	2,885	-	2,885
Total capital assets not being depreciated	3,174,858	1,009,052	3,273,976	909,934
Capital assets being depreciated:				
Buildings and improvements	17,608,351	2,331,659	-	19,940,010
Machinery and equipment	763,139	76,269	5,280	834,128
Furniture and fixtures	4,154	-	-	4,154
Vehicles	323,874	-	-	323,874
Infrastructure	8,594,553	1,505,194	-	10,099,747
Total capital assets being depreciated	27,294,071	3,913,122	5,280	31,201,913
Less accumulated depreciation for:				
Buildings and improvements	12,912,360	500,020	-	13,412,380
Machinery and equipment	526,110	49,640	2,948	572,802
Furniture and fixtures	4,154	-	-	4,154
Vehicles	255,319	43,778	-	299,097
Infrastructure	4,360,802	364,486	-	4,725,288
Total accumulated depreciation	18,058,745	957,924	2,948	19,013,721
Total capital assets being depreciated net	9,235,326	2,955,198	2,332	12,188,192
Wastewater - capital assets, net	\$ 12,410,184	3,964,250	3,276,308	13,098,126

(7) *Capital assets (continued from previous page)*

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Electric Fund:				
Capital assets not being depreciated/amortized:				
Land	\$ 881,078	-	-	881,078
Construction in progress:				
Ins. Settings-Feeder Breakers	11,370	-	-	11,370
Diesel Plant Controls	16,536	616,423	632,959	-
Sub D Area Conversion	60,777	772,305	-	833,082
SCADA-Radio to Fiber Comm	-	52,504	-	52,504
Red Rock Hydro Project Service	-	3,107	-	3,107
New Vermeer Service Line	-	127,609	-	127,609
Total capital assets not being depreciated/amortized	969,761	1,571,948	632,959	1,908,750
Capital assets being depreciated/amortized:				
Buildings and improvements	20,062,310	-	8,561,866	11,500,444
Machinery and equipment	34,186,291	720,461	3,535,657	31,371,095
Furniture and fixtures	16,988	-	-	16,988
Vehicles	593,392	25,602	36,209	582,785
Intangibles	8,460,000	-	-	8,460,000
Total capital assets being depreciated/amortized	63,318,981	746,063	12,133,732	51,931,312
Less accumulated depreciation/amortization for:				
Buildings and improvements	10,625,763	301,061	8,281,050	2,645,774
Machinery and equipment	11,639,359	993,841	2,071,853	10,561,347
Furniture and fixtures	16,988	-	-	16,988
Vehicles	418,187	40,708	36,209	422,686
Intangibles	313,333	256,364	-	569,697
Total accumulated depreciation/amortization	23,013,630	1,591,974	10,389,112	14,216,492
Total capital assets being depreciated/amortized net	40,305,351	(845,911)	1,744,620	37,714,820
Electric-capital assets, net	\$ 41,275,112	726,037	2,377,579	39,623,570

(7) *Capital assets (continued from previous page)*

Combining Schedule	Balance			Balance
Business type activities:	Beginning of			End of
	Year	Increases	Decreases	Year
Capital assets not being depreciated/amortized:				
Land	\$ 1,906,487	-	-	1,906,487
Construction in progress	2,633,684	3,568,630	(4,382,621)	1,819,693
Total capital assets not being depreciated/amortized	4,540,171	3,568,630	(4,382,621)	3,726,180
Capital assets being depreciated/amortized:				
Total capital assets being depreciated/amortized	107,182,817	5,577,310	(12,149,428)	100,610,699
Total accumulated depreciation/amortization	50,885,937	3,190,351	(10,400,144)	43,676,144
Total capital assets being depreciated/amortized (net)	56,296,880	2,386,959	(1,749,284)	56,934,555
Business type activities capital assets, net	\$ 60,837,051	5,955,589	(6,131,905)	60,660,735

Depreciation was charged to functions of the primary government as follows:

Governmental activities:	
Public works	\$ 861,840
Public safety	147,641
Culture and recreation	479,638
General government	130,408
Total depreciation expense - governmental activities	<u>1,619,527</u>
Business type activities:	
Water	\$ 640,453
Wastewater	957,924
Electric	1,591,974
Total depreciation/amortization expense - business type activities	<u>\$ 3,190,351</u>

8) Long-Term Liabilities

The City currently has long-term debt obligations in the form of general obligation bonds and revenue bonds. The City does not have any special assessment debt. The following is a summary of changes in long-term liabilities of the City of Pella for the year ended June 30, 2014:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Amounts Due Within One Year	Amounts Due in More than One Year
Governmental activities:						
General obligation bonds/notes	\$ 3,115,000	3,200,000	850,000	5,465,000	1,205,000	4,260,000
Unamortized premiums	25,143	87,710	(17,179)	95,674	21,771	73,903
Unamortized discount	-	(12,832)	594	(12,238)	(1,426)	(10,812)
Total G.O. bonds payable, net	\$ 3,140,143	3,274,878	833,415	5,548,436	1,225,345	4,323,091
Compensated absences	457,288	155,141	104,746	507,683	101,536	406,147
Net OPEB liability	67,376	17,571	5,025	79,922		79,922
Total governmental activities	\$ 3,664,807	3,447,590	943,186	6,136,041	1,326,881	4,809,160
Business type activities:						
Revenue bonds/notes (gross)	\$ 6,494,628	4,941,552	636,000	10,800,180	983,580	9,816,600
Unamortized premiums	-	82,411	(3,030)	79,381	7,272	72,109
Unamortized discount	(6,194)	(16,450)	3,838	(18,806)	(4,413)	(14,393)
Total revenue bonds payable, net	\$ 6,488,434	5,007,513	636,808	10,860,755	986,439	9,874,316
Compensated absences	396,470	112,076	77,294	431,252	86,250	345,002
Net OPEB liability	51,092	12,671	3,624	60,139	-	60,139
Total business type activities	\$ 6,935,996	5,132,260	717,726	11,352,146	1,072,689	10,279,457

(8) **Long-Term Liabilities (continued from previous page)**

General Obligation Bonds

Five issues of unmatured general obligation bonds/notes totaling \$5,465,000 are outstanding at June 30, 2014. General obligation bonds/notes bear interest rates ranging from 1.85% to 4.10% per annum and mature in varying annual amounts, ranging from \$120,000 to \$390,000, with final maturities due in the year ending June 30, 2023.

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both general government and proprietary activities. These bonds therefore are reported in the proprietary funds if they are expected to be repaid from proprietary revenues. General obligation bonds are direct obligations and pledge the full faith and credit of the City.

Details of general obligation bonds/notes payable at June 30, 2014 are as follows:

Governmental activities	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding June 30, 2014
General and essential corporate purpose	2006	4.00-4.05%	June 1, 2016	\$255,000-270,000	\$ 2,260,000	525,000
General and essential corporate purpose	2008A	3.50-3.90%	June 1, 2018	130,000-150,000	1,230,000	560,000
General and essential corporate purpose	2008B	3.50-4.10%	June 1, 2020	120,000-150,000	1,420,000	800,000
Essential corporate purpose	2010A	3.00%	June 1, 2015	380,000	2,115,000	380,000
General and essential corporate purpose	2014	1.85-2.05-%	June 1, 2023	320,000-390,000	3,200,000	3,200,000
						5,465,000
Unamortized premiums						95,674
Unamortized discounts						(12,238)
Total governmental activities -General obligation bonds/notes, net						<u>\$ 5,548,436</u>

A summary of the annual general obligation bond/note principal and interest requirements to maturity by year is as follows:

Year ending June 30,	General Obligation Debt		
	Principal	Interest	Total
2015	1,205,000	156,263	1,361,263
2016	855,000	111,382	966,382
2017	615,000	84,413	699,413
2018	630,000	67,098	697,098
2019	500,000	48,947	548,947
2020-2024	1,660,000	81,520	1,741,520
Total	<u>\$5,465,000</u>	<u>549,623</u>	<u>6,014,623</u>

General obligation bonds may be called on or after the callable date for redemption by the Issuer and paid before maturity by giving 30 days notice of the redemption by registered mail to the registered owner of the bond. The dates at which the various general obligation bonds may first be called are as follows:

Purpose	Date of Issue	Originally Issued	Callable date
General Government G/O	2006	2,260,000	June 1, 2014
General Government G/O	2008A	1,230,000	On & after 6/1/2016
General Government G/O	2008B	1,420,000	On & after 6/1/2016
G/O Debt-Refunding Urban renewal	2010A	2,115,000	Not subject to call
G/O LOSST Bonds	2014	3,200,000	June 1, 2021

(8) **Long-Term Liabilities (continued from previous page)**

Revenue Notes

Seven issues of unmatured revenue notes totaling \$10,800,180 are outstanding at June 30, 2014. These notes bear interest at rates ranging from 1.75% to 3.70% per annum and mature in varying annual amounts ranging from \$30,000 to \$375,000 with the final maturity due in the year ending June 30, 2034.

The resolution providing for the issuance of the revenue notes includes the following provisions:

- a) The notes will only be redeemed from the future net revenues of the enterprise activity and the note holders hold a lien on the future net revenues of the funds.
- b) Sufficient monthly transfers shall be made to a revenue note retirement account for the purpose of making the note principal and interest payments when due.
- c) Separate water and wastewater improvement and replacement accounts have been accumulated. These accounts are restricted for the purpose of paying for any additional improvements, extensions, repairs to the system, or principal or interest payments if necessary.
- d) User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% for wastewater, and not less than 130% for water, of the amount of principal and interest on the notes falling due in the same year. Net revenues are defined as gross earnings after the deduction of current expenses; including the cost of operating, maintaining, repairing and insuring the system, purchases at wholesale, salaries, wages, and cost of materials and supplies. This excludes; the cost of depreciation, principal and interest payments, capital expenditures, franchise fees and transfers.

During the year ended June 30, 2014, the City was in compliance with the revenue note provisions.

Details of revenue notes payable at June 30, 2014, are as follows:

Business type activities	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding June 30, 2014
Wastewater	1999	1.75%	June 1, 2021	\$156,000-197,000	\$ 2,800,000	1,232,000
Wastewater	2000	1.75%	June 1, 2021	90,000-116,000	1,604,000	718,000
Wastewater	2000	1.75%	June 1, 2021	30,000-39,000	641,000	240,000
Water refunding	2007	3.70%	June 1, 2015	295,000	2,540,000	295,000
Wastewater SRF Drawdown	2014	3.00%	June 1, 2034	157,580-291,000	4,364,580	4,364,580
Water SRF Drawdown					Not Final	450,600
Electric	2014	2.00-3.10%	June 1, 2025	255,000-375,000	3,500,000	3,500,000
						<u>10,800,180</u>
Unamortized discount						(18,806)
Unamortized premium						<u>79,381</u>
Total business type activities -Net revenue bonds						<u>\$ 10,860,755</u>

(8) **Long-Term Liabilities (continued from previous page)**

A summary of annual revenue note principal and interest requirements to maturity are as follows:

Year ended June 30,	Enterprise Funds							
	Water		Wastewater		Electric		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2015	295,000	10,915	433,580	169,262	255,000	117,832	983,580	298,009
2016	-	-	451,000	159,705	290,000	84,962	741,000	244,667
2017	450,600	-	469,000	149,774	295,000	79,163	1,214,600	228,937
2018	-	-	485,000	139,455	300,000	73,262	785,000	212,717
2019	-	-	505,000	128,792	305,000	67,263	810,000	196,055
2020-2024	-	-	1,682,000	488,757	1,680,000	209,175	3,362,000	697,932
2025-2029	-	-	1,163,000	311,820	375,000	11,625	1,538,000	323,445
2030-2034	-	-	1,366,000	125,580	-	-	1,366,000	125,580
Total	\$ 745,600	10,915	6,554,580	1,673,145	3,500,000	643,282	10,800,180	2,327,342

Revenue notes may be called on or after the callable date for redemption by the Issuer and paid before maturity by giving 30 days notice of redemption by registered mail to the registered owner of the bond. The dates at which the various revenue bonds may first be called are as follows:

Purpose	Date of Issue	Originally Issued	Callable date
Wastewater	1999	\$ 2,800,000	Dec. 15, 2009
Wastewater	2000	1,604,000	Dec. 15, 2009
Wastewater	2000	641,000	Dec. 15, 2009
Water refunding	2007	2,540,000	Not subject to call
Wastewater	2011	4,364,580	Not subject to call
Water	2014	Longterm water supply-final amount not determined	
Electric	2014	3,500,000	June 1, 2022

The following is a summary of the transactions for revenue notes, net of unamortized discounts, for the water, sewer, and electric utilities for the year ended June 30, 2013:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Water revenue notes	\$ 665,000	450,600	(370,000)	745,600
Unamortized discount	(6,194)	-	3,233	(2,961)
Net water revenue notes	658,806	450,600	(366,767)	742,639
Sewer revenue notes	5,829,628	990,952	(266,000)	6,554,580
Net sewer revenue notes	5,829,628	990,952	(266,000)	6,554,580
Electric revenue notes	-	3,500,000	-	3,500,000
Unamortized discount	-	(16,450)	605	(15,845)
Unamortized premium	-	82,411	(3,030)	79,381
Net electric revenue notes	-	3,565,961	(2,425)	3,563,536
Total net revenue notes	\$ 6,488,434	5,007,513	(635,192)	10,860,755

(8) Long-Term Liabilities (continued from previous page)

The \$990,952 increase in sewer revenue notes and \$450,600 increase in water revenue notes is from the SRF loan fund. The sewer revenue note is final. The water revenue note has taken a partial draw down on a loan that has been approved to be up to \$1,150,000. Water revenue note interest and principal payments will be determined by the timing and extent of the actual funds borrowed. Principal payments for the purpose of this report were based on the estimated amortization tables provided, and no interest on the water revenue SRF loan was included. Interest, once the loan is finalized, is estimated to be at 1.75% for up to 20 years. Costs include a 0.50% origination fee and 0.25% annual services fee on the outstanding principal.

Long-term Debt Interest Expense - The long-term debt costs and interest, governmental activities, in the Statement of Activities in the amount of \$138,888 is all direct debt costs and interest expense on long-term debt.

Loan discounts and premiums are deferred and amortized over the term of the notes using the straight-line method, which approximates the effective interest method. Discounts are presented as a reduction, premiums are presented as an increase to the face amount of bonds/notes payable. The details of the discounts and premiums are listed in the previous schedules.

(9) Interfund Transfers

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources. The detail of interfund transfers for the year ended June 30, 2014 is as follows:

Transfer to:	Transfer from:	Amount
	Special Revenue:	
General	Employee Benefits	\$ 599,206
	Local option sales tax	248,524
	Sanitation	55,265
		<u>902,995</u>
	Special Revenue:	
Debt Service	Pella Business Corridor- TIF	529,370
	Wastewater	159,430
		<u>688,800</u>
Wastewater	Capital Projects	<u>16,844</u>
Water	Capital Projects	<u>59,994</u>
Special Revenue:		
Road use	General	<u>248,524</u>
Capital Projects	General	552,388
	Electric	23,715
	Water	16,375
	Wastewater	16,375
	Debt Service	1,250,572
	Permanent Funds:	
	Van Gorp Trust	9,895
	Special Revenue:	
	Local option sales tax	1,897,363
	Road use	470,089
	Pella Business Corridor- TIF	265,124
		<u>4,501,896</u>

(10) **Net Position Restricted by Enabling Legislation**

The components of Net Restricted Position listed in Exhibit A are as follows:

Restricted for:	Governmental Activities	Business Type Activities
Nonexpendable:		
Customer Deposits	\$ -	70,000
Prepaid expenditures	43,437	-
Permanently restricted donation - Carnegie-Viersen Trust	40,000	-
Permanently restriction donation - Van Gorp Trust	100,000	-
Expendable:		
Debt service	1,982,910	-
Debt restricted - Water Bond Reserve	-	254,000
Debt restricted - Electric Bond Reserve	-	1,029,268
Other - deposits	-	40,086
Special purposes:		
TIF - High Point	55	-
TIF - Pella Business Corridor	1,259,187	-
Road use	664,214	-
Local Option Sales Tax	156,345	-
Pella Clothing Bank	1,171	-
Police Reserve	1,202	-
Community Development	4,936	-
Library Gifts/Memorials	84,290	-
Pella Community Center	8,562	-
Art Center	14,589	-
Airport	38,841	-
Police Asset Forfeiture	54,758	-
Soccer Complex	171	-
Community Gardens Trust Fund	2,595	-
Community Service Scholarship Trust	381	-
Parks Development	29,579	-
Carnegie-Viersen Trust Earnings - Educational purposes	35,243	-
Carnegie-Viersen-Van Gorp Trust - Library operations and repairs	34,598	-
Van Gorp Trust Earnings - Information Windmill Repairs	3,073	-
Total net restricted funds/position	\$ 4,560,137	1,393,354

(11) **Retirement Plans**

Iowa Public Employees Retirement System - The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 5.95% of their annual covered salary and the City is required to contribute 8.93% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2014, 2013 and 2012, were \$384,509, 362,466, and \$379,803, respectively, equal to the required contributions for each year.

(11) Retirement Plans (continued from previous page)

Municipal Fire and Police Retirement System of Iowa - The City contributes to the Municipal Fire and Police Retirement System of Iowa (the Plan), which is a cost-sharing multiple-employer defined benefit pension plan administered by a Board of Trustees. The Plan provides retirement, disability, and death benefits which are established by state statute to plan members and beneficiaries. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Municipal Fire and Police Retirement System of Iowa, 7155 Lake Drive, Suite 201, West Des Moines, Iowa 50266.

Plan members are required to contribute 9.40% of earnable compensation and the City's contribution rate, based upon an actuarially determined normal contribution rate, is 30.12% of earnable compensation. Contribution rates are established by state statute. The City's contribution to the Plan for the years ended June 30, 2014, 2013 and 2012 were \$235,185, \$200,581, and \$171,009, respectively, which met the required minimum contribution for each year.

(12) Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 88 eligible, 78 active and one retired member in the plan. General participants (IPERS) must be age 55 or older at retirement. Police participants (MFPRSI) must be age 55 or older with 22 years of service at retirement. Surviving spouse/dependents of retirees are allowed to remain on health coverage at their own expense until age 65.

The medical/prescription drug coverage is provided through a purchased high deductible health insurance plan and a partially self-funded plan where the City funds the difference between the deductibles and out-of-pocket maximums charged to employees and those covered by the purchased plan. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit rate subsidy and an OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The City's annual OPEB cost is calculated based on the annual required contribution (ARC) of the City, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the City's annual OPEB cost for the year ended June 30, 2014, the amount actually contributed to the plan and changes in the City's net OPEB obligation:

Annual required contribution	\$ 30,030
Interest on net OPEB obligation	4,739
Adjustment to annual required contribution	(4,527)
Annual OPEB cost	30,242
Contributions made	(8,649)
Increase in net OPEB obligation	21,593
Net OPEB obligation beginning of year	118,468
Net OPEB obligation end of year	\$ 140,061

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2014.

The required contribution is based on projected pay-as-you-go financing. For fiscal year 2014, the City contributed \$8,649 toward the annual required OPEB contribution. It also funded 90% of the established premium toward active members' health coverage. Active members receiving benefits contributed \$95,830, or 10% of the established premium, through their required contribution of \$49.70 or \$104.70 per month, depending on whether single or family coverage is elected. There was one retiree covered during the 2014 fiscal year.

(12) **Other Postemployment Benefits (continued from previous page)**

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2014 are summarized as follows:

Year ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	\$ 24,155	4.4%	\$ 45,156
June 30, 2011	20,780	4.4%	65,936
June 30, 2012	26,230	4.0%	92,166
June 30, 2013	30,195	4.0%	118,468
June 30, 2014	30,242	4.0%	140,061

Funded Status and Funding Progress - As of July 1, 2011, the most recent actuarial valuation date for the period July 1, 2011 through June 30, 2012, the actuarial accrued liability was \$256,727, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$256,727. The covered payroll (for the year ended June 30, 2014) was approximately \$4,450,076 and the ratio of the UAAL to covered payroll was 5.8%. As of June 30, 2014, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumption about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2011 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions include a 4% discount rate based on the City's funding policy. The projected annual medical trend rate is 8.5%. The ultimate medical trend rate is 5%. The medical trend rate is reduced 0.5% each year until reaching the 5% ultimate trend rate.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2010 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2010.

Projected claim costs of the medical plan are \$867 per month for retirees less than age 65. The salary increase rate was assumed to be 3% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(13) **Deferred Compensation Plan**

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 for employees and Code Section 401 for the position of City Administrator. The 457 plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights must be held in trust of the exclusive benefit of plan participants and beneficiaries. These funds are invested and held by the ICMA-RA (International City County Management Association Retirement Corporation) and not by the City. Therefore, they are not listed as a liability of the City.

(13) Deferred Compensation Plan (continued from previous page)

It is the opinion of the City's legal counsel that the City has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor.

(14) Related Party Transactions

The City had business transactions between the City and Council members totaling \$627,148 during the year ended June 30, 2014. There were no related payables at June 30, 2014.

(15) Major Customer

During the year ended June 30, 2014, the City of Pella Municipal Electric Utility had two major customers. They purchased \$3,458,766 and \$2,600,473 of electric power. These charges represent 20.20% and 15.19%, respectively, of total charges for electric services.

(16) Risk Management

Insurance - The City of Pella carries commercial insurance purchased from issuers for coverage associated with risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Shared Funding/Partial Self-Funding Health Care Plan – The City of Pella entered into a 28E agreement on July 7, 2009, as allowed by Chapter 28E of the Code of Iowa which authorizes the joint exercise of governmental powers that would include a cooperative agreement to create and maintain a health benefit program. The participating agencies join together to form the Iowa Governmental Health Care Plan (IGHCP). IGHCP is a benefits trust for shared risk pooling among Public Employers in the State of Iowa. Its unique design allows entities to enter into the trust based on claims experience, plan design and demographics. The entities are then pooled at renewal, using total claims experience to develop renewal percentages.

IGHCP purchases a high deductible health insurance plan from Wellmark, Blue Cross/Blue Shield. The City funds the difference between the deductibles and out-of-pocket maximums charged to employees and those covered by the purchased plan.

The City escrows funds from each month to be used to pay medical claims incurred. The maximum exposure to the City for claims incurred is limited by the spread between the deductibles and out-of-pocket maximums and those of the policy carried by the City. For 2013, the risk spread for employees with single coverage was \$2,750 per employee and for those with family coverage was \$5,500 per employee. The total risk in 2013 was \$349,250. In 2014, the risk spread was \$2,750 for employees with single coverage and \$5,500 for employees with family coverage. Total risk in 2014 was \$371,250 if every employee hit their maximum out-of-pocket amounts.

At June 30, 2014, the plan held \$708,314 cash and pooled investments. The actuarial estimate of the reserves necessary for the claims incurred but not yet paid was \$43,238, which is listed as the accounts payable balance of the Internal Service Fund.

(17) Commitments

The City has entered into several contracts totaling \$12,662,899. At June 30, 2014, \$7,733,509 had been paid towards these contracts. The remaining amounts will be paid as work on the projects progresses.

Contracts	Contract Amount	Amount Paid	% Complete
Sports Park			
Todd Hackett Construction	\$ 5,392,135	3,148,306	58%
Indoor Pool Renovation			
Garling Construction, Inc	2,739,103	1,189,180	43%
Power Plant Deconstruction			
NCM Demolition & Remediation, LP	1,403,215	1,041,642	74%
Diesel Plant Control System Upgrade			
Eagle Electric, Inc	573,220	544,559	95%
Electric Distribution Conversion			
Mastec North American, Inc	379,266	261,910	69%
Comprehensive Plan			
RDG Planning & Design	84,700	79,173	93%
Water Supply Plan			
Howard R Green Company	945,500	699,670	74%
Indoor Pool Renovations			
Shive Hattery	231,825	200,992	87%
Oskaloosa Street Reconstruction			
Garden & Associates, Ltd	206,500	12,381	6%
Sports Park			
Civil Design Advantage LLC	440,986	366,499	83%
Airport Runway/Apron Rehab Engineering			
Garden & Associates, Ltd	44,669	12,493	28%
Power Plant Deconstructive Site services			
Burns & McDonnell	221,780	176,704	80%
	<u>\$ 12,662,899</u>	<u>7,733,509</u>	

(17) Commitments (continued from previous page)

Other Contracts:		Expires:
Power Supply Agreement		
Missouri River Energy Services	Monthly charges	12/31/2045
Transmission Service Agreement		
Missouri River Energy Services	Monthly charges	12/31/2045
MISO Market Implementation Agreement		
Missouri River Energy Services	Monthly charges	12/31/2045
Dedicated Capacity Agreement		
Missouri River Energy Services	Monthly revenue	12/31/2018
Solid Waste Collection		
Kal Services, Inc.	per tote	7/31/2015

(18) Subsequent Events

On October 21, 2014, City Council approved a lease purchase agreement with Turfwerks/Davis Equipment Corporation for the Bos Landen Irrigation System Improvements. The cost of the irrigation system improvements is \$329,167 and the interest rate is 3.59% for a total cost of \$347,365.

In April of 2013, the City Council approved an engineering design services agreement with HR Green, Inc. (HR Green, Engineer) in the amount of \$945,500 for the City's long-term water supply plan. On January 6, 2015, City Council approved a resolution for Amendment #1 for an additional not to exceed amount of \$1,041,500 to HR Green's contract which includes final design changes, bidding phase services, construction administration and construction observation.

On January 6, 2015, City Council awarded a contract for the construction for the new Jordan Well to the low bidder, C.L. Carroll, Co. in the amount of \$2,322,000. The Jordan Well is part of the City's long term water supply plan for which construction is expected to begin in the spring of 2015. As part of the financing strategy for the Jordan Well, as well as other components of the long term water supply plan, the City Council authorized \$15,819,000 of Taxable Water Revenue Capital Loan Notes issued through the Iowa Finance Authority's State Revolving Fund.

(19) Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27*. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, the Statement of Net Position is expected to include a significant liability for the government's proportionate share of the employee pension plan.

Required Supplementary Information

City of Pella, Iowa
Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances
Budget and Actual (Modified Accrual Basis)
Governmental and Proprietary Funds
Required Supplementary Information
Year ended June 30, 2014

	Budgeted Amounts					
	Governmental Funds-Actual	Proprietary Funds-Actual	Total Actual	Original	Final	Final to Actual Variance
Revenues:						
Property taxes	\$ 4,309,539	-	4,309,539	4,315,303	4,315,303	(5,764)
Tax increment financing	414,713	-	414,713	420,002	420,002	(5,289)
Other city taxes	1,451,396	-	1,451,396	1,413,430	1,413,430	37,966
Licenses and permits	104,104	-	104,104	57,500	57,500	46,604
Use of money and property	55,121	48,845	103,966	150,503	150,503	(46,537)
Intergovernmental	1,982,474	-	1,982,474	2,256,168	1,837,168	145,306
Charges for services	411,525	24,369,269	24,780,794	22,002,174	22,002,174	2,778,620
Special Assessments	-	-	-	-	-	-
Miscellaneous	2,080,350	602,287	2,682,637	3,318,017	4,764,280	(2,081,643)
Total revenues	10,809,222	25,020,401	35,829,623	33,933,097	34,960,360	869,263
Expenditures:						
Public safety	1,971,557	-	1,971,557	1,942,329	1,942,329	(29,228)
Public works	1,133,579	-	1,133,579	1,205,860	1,216,860	83,281
Culture and recreation	2,070,076	-	2,070,076	2,077,859	2,077,859	7,783
Community and economic development	638,673	-	638,673	672,278	722,278	83,605
General government	534,095	-	534,095	544,979	561,479	27,384
Debt service	998,354	-	998,354	994,963	994,963	(3,391)
Capital projects	6,609,085	-	6,609,085	8,462,455	8,095,023	1,485,938
Business type activities	-	27,654,698	27,654,698	25,646,399	26,928,281	(726,417)
Total expenditures	13,955,419	27,654,698	41,610,117	41,547,122	42,539,072	928,955
Excess (deficiency) of revenues over (under) expenditures	(3,146,197)	(2,634,297)	(5,780,494)	(7,614,025)	(7,578,712)	1,798,218
Other financing sources (uses):						
Operating transfers in	6,342,215	43,619	6,385,834	13,042,463	15,707,306	9,321,472
Operating transfers out	(6,147,893)	(237,941)	(6,385,834)	(13,042,463)	(15,707,306)	(9,321,472)
Unrealized gains(losses) on investments	136	-	136	-	-	(136)
Debt Proceeds	3,274,878	4,941,552	8,216,430	6,575,000	8,349,878	133,448
Purchase of assets	51,808	(8,123,925)	(8,072,117)	5,000	5,000	8,077,117
Total other financing sources	3,521,144	(3,376,695)	144,449	6,580,000	8,354,878	8,210,429
Excess (deficiency) of revenues and other financing sources over (under) expenditures	374,947	(6,010,992)	(5,636,045)	(1,034,025)	776,166	(6,412,211)
Balance beginning of year	6,207,297	16,051,902	22,259,199	20,783,546	13,438,817	8,820,382
Balance end of year	\$ 6,582,244	10,040,910	16,623,154	19,749,521	14,214,983	2,408,171

See the following page for GAAP to modified accrual conversion necessary for this comparison.

See accompanying independent auditor's report.

City of Pella, Iowa
Budgetary Comparison Schedule
Proprietary-GAAP to Modified Accrual Reconciliation
Required Supplementary Information
Year ended June 30, 2014

	Proprietary Funds		
	GAAP	Accrual Adjustments	Modified Accrual Basis
Total revenues	\$ 25,020,401	-	25,020,401
Expenses:			
Business type activities	26,245,780	1,408,918	27,654,698
Excess (deficiency) of revenues under expenses	(1,225,379)	(1,408,918)	(2,634,297)
Other financing sources (uses):			
Operating transfers to other funds	(194,322)	-	(194,322)
Net purchase of fixed assets	(1,726,542)	(6,397,383)	(8,123,925)
Debt proceeds	-	4,941,552	4,941,552
Total other financing sources (uses)	(1,920,864)	(1,455,831)	(3,376,695)
Increase in net position	(3,146,243)	(2,864,749)	(6,010,992)
Beginning net position	61,620,301	(45,568,399)	16,051,902
Ending net position	\$ 58,474,058	(48,433,148)	10,040,910

The City budgets on the modified accrual basis. It includes proprietary expenditures outlays for capital assets and debt principal paid with adjustments to remove the effects of depreciation and bond issuance and discount costs recognized in GAAP accounting.

See accompanying independent auditor's report.

City of Pella, Iowa
Notes to Required Supplementary Information - Budgetary Reporting
Year ended June 30, 2013

The budgetary comparison is presented as Required Supplementary Information in accordance with *Government Accounting Standards* Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the modified accrual basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted revenues by \$1,027,263, increased budgeted disbursements by \$991,950. This budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2014, disbursements in the public safety, business type activities, and debt service functions exceeded the amounts budgeted.

City of Pella, Iowa
Schedule of Funding Progress for the Retiree Health Plan
Required Supplementary Information

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2009	July 1, 2009	\$ -	199,000	199,000	0.0%	\$ 4,866,000	4.1%
2010	July 1, 2009	-	199,000	199,000	0.0%	4,259,187	4.7%
2011	July 1, 2009	-	199,000	199,000	0.0%	4,202,220	4.7%
2012	July 1, 2011	-	256,727	256,727	0.0%	4,543,545	5.7%
2013	July 1, 2011	-	256,727	256,727	0.0%	4,522,000	5.7%
2014	July 1, 2011	-	256,727	256,727	0.0%	4,450,076	5.8%

See Note 12 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

Supplementary Information

Schedule 1

City of Pella, Iowa
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2014

	Special Revenue Funds									
	Pella Business Corridor Tax Increment Financing	Highpoint Tax Increment Financing	Road Use	Local Option Sales Tax	Employee Benefits	Pella Clothing Bank	Police Reserve	Community Development Trust	Carnegie Viersen Library Gift/Memorial	Pella Community Center
Assets										
Cash and pooled investments	\$ 1,259,135	55	702,328	-	-	1,171	1,202	4,936	84,299	8,562
Receivable:										
Property tax:										
Delinquent	-	-	-	-	1,785	-	-	-	-	-
Succeeding year	-	-	-	-	613,308	-	-	-	-	-
Tax increment financing:										
Delinquent	52	-	-	-	-	-	-	-	-	-
Succeeding year	650,003	-	-	-	-	-	-	-	-	-
Local option sales tax	-	-	-	158,129	-	-	-	-	-	-
Accounts receivable, miscellaneous	-	-	2,767	-	-	-	-	-	-	-
Accrued interest	-	-	-	-	-	-	-	-	5	-
Total assets	\$ 1,909,190	55	705,095	158,129	615,093	1,171	1,202	4,936	84,304	8,562
Liabilities, Deferred Inflows of Resources and Fund Balances										
Liabilities:										
Excess of warrants over bank balance	\$ -	-	-	1,784	1,785	-	-	-	-	-
Accounts payable	-	-	29,330	-	-	-	-	-	14	-
Salaries and benefits payable	-	-	11,551	-	-	-	-	-	-	-
Customer Deposits	-	-	-	-	-	-	-	-	-	-
Total liabilities	-	-	40,881	1,784	1,785	-	-	-	14	-
Deferred inflows of resources:										
Unavailable revenues:										
Succeeding year property tax	-	-	-	-	613,308	-	-	-	-	-
Tax increment financing	650,003	-	-	-	-	-	-	-	-	-
Total deferred inflows of resources	650,003	-	-	-	613,308	-	-	-	-	-
Fund balances:										
Nonspendable:										
Permanent trust	-	-	-	-	-	-	-	-	-	-
Restricted for:										
Debt Service	-	-	-	-	-	-	-	-	-	-
Other purposes	1,259,187	55	664,214	156,345	-	1,171	1,202	4,936	84,290	8,562
Total fund balances	1,259,187	55	664,214	156,345	-	1,171	1,202	4,936	84,290	8,562
Total liabilities, deferred inflows of resources and fund balances	\$ 1,909,190	55	705,095	158,129	615,093	1,171	1,202	4,936	84,304	8,562

See accompanying independent auditor's report.

Schedule 1

Special Revenue Funds									Permanent Funds		
Pella Community Center Van Trust	Art Center Trust	Airport Trust	Police Asset Forfeiture	Soccer Complex	Community Gardens Trust Fund	Community Service Scholarship Trust	Parks Development	Carnegie-Viersen-Van Gorp Trust Fund	Carnegie-Viersen Trust Fund	Van Gorp Trust	Total Non-major Governmental Funds
-	15,047	38,839	54,755	171	3,241	381	29,656	35,241	74,598	103,066	2,416,683
-	-	-	-	-	-	-	-	-	-	-	1,785
-	-	-	-	-	-	-	-	-	-	-	613,308
-	-	-	-	-	-	-	-	-	-	-	52
-	-	-	-	-	-	-	-	-	-	-	650,003
-	-	-	-	-	-	-	-	-	-	-	158,129
-	-	-	-	-	-	-	-	-	-	-	2,767
-	-	2	3	-	-	-	1	2	-	7	20
-	15,047	38,841	54,758	171	3,241	381	29,657	35,243	74,598	103,073	3,842,747
-	-	-	-	-	-	-	-	-	-	-	3,569
-	458	-	-	-	21	-	78	-	-	-	29,901
-	-	-	-	-	-	-	-	-	-	-	11,551
-	-	-	-	-	625	-	-	-	-	-	625
-	458	-	-	-	646	-	78	-	-	-	45,646
-	-	-	-	-	-	-	-	-	-	-	613,308
-	-	-	-	-	-	-	-	-	-	-	650,003
-	-	-	-	-	-	-	-	-	-	-	1,263,311
-	-	-	-	-	-	-	-	-	40,000	100,000	140,000
-	-	-	-	-	-	-	-	-	-	-	-
-	14,589	38,841	54,758	171	2,595	381	29,579	35,243	34,598	3,073	2,393,790
-	14,589	38,841	54,758	171	2,595	381	29,579	35,243	74,598	103,073	2,533,790
-	15,047	38,841	54,758	171	3,241	381	29,657	35,243	74,598	103,073	3,842,747

Schedule 2

City of Pella, Iowa

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances

Non-Major Other Governmental Funds

Year ended June 30, 2014

	Special Revenue Funds								
	Pella Business Corridor Tax Increment	Highpoint Tax Increment	Road Use	Local option sales tax	Employee Benefits	Pella Clothing	Police	Community Development	Carnegie Viersen
	Financing	Financing				Bank	Reserve	Trust	Library Gift/ Memorial
Revenues:									
Property tax	\$ -	-	-	-	590,566	-	-	-	-
Tax increment financing	414,713	-	-	-	-	-	-	-	-
Local option sales tax	-	-	-	998,237	-	-	-	-	-
Other City Taxes	-	-	-	-	7,592	-	-	-	-
Intergovernmental	-	-	1,033,686	244,381	-	-	-	-	13,415
Use of money and property	1,604	-	-	827	1,048	3	5	18	376
Charges for service	-	-	540	-	-	-	-	-	-
Miscellaneous	-	-	150	-	-	2,356	-	-	9,434
Total revenues	416,317	-	1,034,376	1,243,445	599,206	2,359	5	18	23,225
Expenditures:									
Operating:									
Public Safety	-	-	-	-	-	-	-	-	-
Public works	-	-	782,759	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	2,400	-	-	32,936
Community and economic development	200,035	-	-	-	-	-	-	-	-
General government	-	-	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-	-	-
Total expenditures	200,035	-	782,759	-	-	2,400	-	-	32,936
Excess (deficiency) of revenues over (under) expenditures	216,282	-	251,617	1,243,445	599,206	(41)	5	18	(9,711)
Other financing sources (uses):									
Operating transfer in	-	-	248,524	-	-	-	-	-	-
Operating transfer (out)	(794,494)	-	(470,089)	(2,145,887)	(599,206)	-	-	-	-
General obligation bonds issued	-	-	-	-	-	-	-	-	-
Unrealized gains(losses) in investments	-	-	-	-	-	-	-	-	-
Proceeds from sale of assets	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	(794,494)	-	(221,565)	(2,145,887)	(599,206)	-	-	-	-
Changes in fund balances	(578,212)	-	30,052	(902,442)	-	(41)	5	18	(9,711)
Fund balances beginning of year	1,837,399	55	634,162	1,058,787	-	1,212	1,197	4,918	94,001
Fund balances end of year	\$ 1,259,187	55	664,214	156,345	-	1,171	1,202	4,936	84,290

See accompanying independent auditor's report.

Schedule 2

Special Revenue Funds										Permanent Funds		
Pella Community Center	Pella Community Center Van Trust	Art Center Trust	Airport Trust	Police Asset Forfeiture	Soccer Complex	Community Gardens Trust Fund	Community Service Scholarship Trust	Parks Develop- ment	Carnegie-Viersen- Van Gorp Trust Fund	Carnegie- Viersen Trust Fund	Van Gorp Trust	Total Non-major Governmental Funds
-	-	-	-	-	-	-	-	-	-	-	-	590,566
-	-	-	-	-	-	-	-	-	-	-	-	414,713
-	-	-	-	-	-	-	-	-	-	-	-	998,237
-	-	-	-	-	-	-	-	-	-	-	-	7,592
-	-	-	-	2,695	-	-	-	-	-	-	-	1,294,177
5	-	15	156	205	1	603	-	-	144	16	459	5,485
-	-	-	-	-	-	-	-	-	-	-	-	540
8,575	-	911	-	-	-	-	468	15,685	-	-	-	37,579
8,580	-	926	156	2,900	1	603	468	15,685	144	16	459	3,348,889
-	-	-	-	11,154	-	-	-	-	-	-	-	11,154
-	-	-	-	-	-	-	-	-	-	-	-	782,759
682	-	3,410	-	-	-	114	164	9,584	-	-	-	49,290
-	-	-	-	-	-	-	-	-	-	-	-	200,035
-	1,717	-	-	-	-	-	-	-	-	-	-	1,717
-	-	-	-	-	-	-	-	-	-	-	-	-
682	1,717	3,410	-	11,154	-	114	164	9,584	-	-	-	1,044,955
7,898	(1,717)	(2,484)	156	(8,254)	1	489	304	6,101	144	16	459	2,303,934
-	-	-	-	-	-	-	-	-	-	-	-	248,524
-	-	-	-	-	-	-	-	-	-	-	(9,895)	(4,019,571)
-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	136	-	136
-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	136	(9,895)	(3,770,911)
7,898	(1,717)	(2,484)	156	(8,254)	1	489	304	6,101	144	152	(9,436)	(1,466,977)
664	1,717	17,073	38,685	63,012	170	2,106	77	23,478	35,099	74,446	112,509	4,000,767
8,562	-	14,589	38,841	54,758	171	2,595	381	29,579	35,243	74,598	103,073	2,533,790

City of Pella, Iowa
 Schedule of Revenues by Sources and Expenditures by Function
 All Governmental Funds
 For the Last Ten Years

	Modified Accrual Basis									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Revenues:										
Property tax	\$ 4,309,539	3,851,629	3,804,765	3,740,164	3,844,577	3,420,082	2,863,107	2,792,009	2,778,762	2,722,753
Tax increment financing revenue	414,713	1,460,029	1,500,001	1,367,004	944,634	1,616,632	2,022,553	1,867,289	1,675,567	1,672,240
Local option sales tax	998,237	944,294	954,070	937,924	806,475	1,180,851	875,711	984,332	1,000,702	813,900
Other city tax	453,159	458,477	452,189	417,145	381,025	400,928	516,806	499,706	394,645	366,366
Licenses and permits	104,104	93,058	66,381	50,908	41,960	29,859	18,266	21,369	27,320	30,033
Use of money and property	55,121	49,831	58,294	54,493	65,787	117,224	158,941	177,215	178,192	151,017
Intergovernmental	1,982,474	1,764,581	2,741,810	2,324,156	2,064,034	1,709,321	1,622,953	1,519,012	1,438,435	1,686,186
Special assessments	-	-	-	0	-	-	-	44,124	-	-
Charges for service	411,515	405,978	446,540	385,197	460,177	492,108	411,384	340,054	377,208	353,694
Miscellaneous	2,080,350	1,190,810	161,446	99,958	125,394	112,268	170,369	406,459	277,790	183,838
Total	\$ 10,809,212	\$ 10,218,687	10,185,496	9,376,949	8,734,063	9,079,273	8,660,090	8,651,569	8,148,621	7,980,027
Expenditures:										
Operating:										
Public safety	\$ 1,971,557	1,847,144	1,778,204	1,743,896	1,551,122	1,538,082	1,568,486	1,411,218	1,401,296	1,338,999
Public works	1,133,579	1,114,288	1,110,420	1,126,308	1,122,410	1,101,806	1,037,294	1,010,058	911,054	951,204
Culture and recreation	2,070,076	1,909,927	1,725,022	1,797,234	1,687,573	1,815,563	1,645,610	1,585,354	1,532,929	1,516,237
Community and economic development	638,673	620,265	579,804	670,113	479,241	504,894	463,659	541,534	506,050	601,903
General government	534,095	520,791	500,472	583,175	468,360	450,969	344,179	339,003	336,511	338,399
Debt service	998,354	962,228	957,882	977,618	3,719,956	1,372,483	5,853,291	1,706,474	4,092,597	1,795,402
Capital projects	6,609,085	3,052,512	2,048,265	2,666,864	631,463	1,255,727	3,142,731	2,217,218	1,446,816	668,144
Total	\$ 13,955,419	\$ 10,027,155	8,700,069	9,565,208	9,660,125	8,039,524	14,055,250	8,810,859	10,227,253	7,210,288

See accompanying independent auditor's report.

Schedule 4

City of Pella, Iowa
Schedule of Expenditures of Federal Awards
Year ended June 30, 2014

Grantor/Program	CFDA Number	Grant Number	Expenditures
Direct:			
U.S. Department of Justice:			
Bulletproof Vest Partnership Program	16.607	FY14	\$ 2,695
U.S. Department of Transportation:			
Airport Improvement Program	20.205	AIP 3-19-0112-010	11,243
Total direct			13,938
Indirect:			
U.S. Department of Transportation:			
Iowa Department of Public Safety:			
Alcohol Impaired Driving Counter Measures	20.601	PAP 14-405d-M6OT, Task 43	5,074
Alcohol Incentive Grant	20.601	PAP 13-410, Task 43	6,097
U.S. Environmental Protection Agency:			
Iowa Finance Authority:			
Clean Water State Revolving Fund	66.458	PDCW-1077	990,952
Clean Water State Revolving Fund	66.458	PDDW-1422	450,600
Total indirect			1,452,723
Total			\$ 1,466,661

See accompanying notes to schedule of expenditures of federal awards

City of Pella
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards presents the activity of all federal financial assistance programs of the City of Pella for the year ended June 30, 2014. All federal financial assistance received directly from federal agencies as well as federal financial assistance passed through other government agencies is included in the schedule. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of states, Local Governments and Nonprofit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2. Significant Accounting Policies

For governmental funds, in accordance with the modified accrual basis of accounting, revenue from federal grants is recognized when they become both measurable and available. For proprietary funds, in accordance with the accrued basis of accounting, revenues from federal grants are recognized in the period they are earned. Expenditures of federal awards are recognized in the accounting period when the liability is incurred.

Note 3. Federal Loan Outstanding

The City participates in the following loan program for which loan amounts and payments are not required to be included on the schedule of expenditures of federal awards.

<u>CFDA #</u>	<u>Program</u>	<u>Outstanding Balance</u> <u>As of June 30, 2014</u>
66.458	Clean Water State Revolving Fund	\$4,815,180



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Van Maanen, Sietstra, Meyer & Nikkel, PC
CERTIFIED PUBLIC ACCOUNTANTS

**Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

To the Honorable Mayor and Members of the City Council
City of Pella, Iowa:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Pella, Iowa, as of and for the year ended June 30, 2014, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 9, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Pella's internal control over financial reporting to determine the auditing procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Pella's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Pella's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Pella's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2014 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Pella's Responses to Findings

The City of Pella's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The City of Pella's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Pella during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Van Maanen, Sietstra, Meyer & Nikkel PC

Van Maanen, Sietstra, Meyer & Nikkel, PC
Certified Public Accountants

February 9, 2015



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**Independent Auditor's Report on Compliance
for Each Major Federal Program and on Internal Control over Compliance
Required by OMB Circular A-133**

To the Honorable Mayor and Members of the City Council City of Pella, Iowa:

Report on Compliance for Each Major Federal Program

We have audited the City of Pella's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the City of Pella's major federal programs for the year ended June 30, 2014. The City of Pella's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City of Pella's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Pella's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination on the City of Pella's compliance.

Opinion on each Major Federal Program

In our opinion, the City of Pella complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal program for the year ended June 30, 2014.

Report on Internal Control Over Compliance

The management of the City of Pella is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Pella's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Pella's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Van Maanen, Sietstra, Meyer & Nikkel PC

Van Maanen, Sietstra, Meyer & Nikkel, PC
Certified Public Accountants

February 9, 2015

Part I: Summary of the Independent Auditor's Results:

- (a) Unmodified opinions were issued on the financial statements.
- (b) No material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major program were noted.
- (e) An unmodified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed no audit findings which were required to be reported in accordance with Office Management and Budget Circular A-133, Section .510(a).
- (g) The major programs were as follows:
 - CFDA Number 66.458 – Clean Water State Revolving Fund
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Pella qualified as a low-risk auditee.

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

No matters were noted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

No material weaknesses in internal control over the major program were noted.

Part IV: Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget - Expenditures for the year ended June 30, 2014, exceeded the budget in the public safety, business type activities, and debt service functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in accordance with Chapter 384.20 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future.

Conclusion - Response accepted.

City of Pella, Iowa
Schedule of Findings and Questioned Costs
Year ended June 30, 2013

- (2) Questionable Disbursements - No disbursements were noted that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- (3) Travel Expense - No expenditures of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions - Business transactions between the City and City officials or employees for the year ended June 30, 2014 are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Bruce Schiebout, Council Member Owner of Eagle Electric	Replace motor starter	\$ 307
	Contract for control system upgrade	\$161,310
	Payment #2	\$190,596
	Payment #3	\$192,653
Mark De Jong, Council Member Owner De Jong Greenhouses	Flowers	\$25
David Vander Horst, Council Member Owner of Digital Solutions, Inc.	IT Services	\$82,257

There were no related payables at June 30, 2014.

The second transaction with one of the Council Members does not appear to represent conflict of interest since the total transaction with the individual was less than \$1,500 during the fiscal year. The first and third transactions with the council members which exceeded \$1,500 do not appear to be conflicts of interest since they were entered into through competitive bidding in accordance with Chapter 362.5(3)(d) of the Code of Iowa.

- (5) Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- (6) Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- (7) Council Minutes - Published minutes did not include the purpose of the expenditure, total disbursements by fund, and a summary of receipts.

Recommendation - The purpose of expenditures should be included in the published minutes.

Response - When expenditures are approved by Council, a description of the expenditure is provided that ranges in length from seven to fifteen words. The system does not have the capability to print a report that summarizes our description into one word for publication purposes. We will investigate our ability to include the other information.

Conclusion - Response accepted.

- (8) Revenue Bonds - The City has complied with the provisions of the revenue bond indentures.
- (9) Annual Urban Renewal Report - The urban renewal annual report was properly approved and certified to the Iowa Department of Management on or before December 1, 2014.